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**Venezuela then and now: How did the Chavezian era change
the Latin-American country's economy?**

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Thesis Abstract

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Venezuela has gained considerable attention in the past few years, especially since the demonstrations of early 2014. The study holds relevance for European countries that are experiencing a political shift away from traditional central forces as it points out the issues Venezuela experienced that could be sidestepped.

The aim of this work is to determine the extent to which *Hugo Chávez*' economic, social and political legacy is responsible for the current struggle of the country. The main question still remains whether the poverty reduction policies were successful and the thesis aims to find an answer to the above mentioned assumption.

Most previous works focus on only a restricted topic such as the social policies of the Chávez-government – this work, however, attempts to provide readers with a chronological description of Venezuela's past and present and outline the possibilities in the future. The author is convinced that only by knowing previous events is it possible to understand the ex-colonel's popularity which explains his long-lasting controversial governance. Only after describing the situation does the study go on to evaluate the economic, social and foreign policies of the Chávez-government and draw consequences related to recent events.

For the sake of impartiality, the author used several sources and considered opposing opinions to ensure the trustworthiness and objectivity of the data. The conducted research is strictly theoretical based on credible sources that are free from political influences; at times, it used manipulated data in comparison with official information only to show the extent of governmental corruption in Venezuela.

Results show that the decrease in the poverty rate is neither as substantial nor as permanent as was stated by the Venezuelan government, meaning that the primary goal of the Chávez-government was not reached. Also, even though the incumbent president's mismanagement contributed to the current problems, the legacy of the Chavez-government is one of the main causes of recent troubles, together with external negative impacts. These results imply that a break from the current governing system and structural changes are much needed in Venezuela.

Keywords: Hugo Chávez, Venezuela, social policies, missions, economic policies, oil, petroleum

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1. INTRODUCTION

There is no doubt that Latin-American countries have played an important role in the international economy ever since the first Spanish expeditions had arrived in the New World. Each and every country in the Latin-American continent has their own specific history but there are plentiful similarities from dependency on exporting commodities to failed agrarian reforms. I wrote about Venezuela not just because I find the country's history fascinating but also since I think its role in the global market is often overlooked and misunderstood. Also, it is a very interesting case as it still relies mainly on the exportation of a single commodity (crude petroleum oil), a rare occurrence in the 21st century. Moreover, the recent events since the socialist leader, *Hugo Chávez*' death have brought hitherto underlying problems and social tension into light that are worth examining in more detail.

In my opinion, in order to be able to understand the current situation and to draw conclusions from it, one must examine the past first, starting at the very beginning. I therefore first looked at the colonisation process in brief, What one has to understand is that the problems in Venezuela are not just of economic, but of political and of social origin, one causing the other. We will later see that the international division of labour has put not just Venezuela, but most if not all Latin-American states at a disadvantage, acting merely as the providers of raw materials to first Spain, then later Britain and the USA. It also allowed the formation of a highly hierarchical society which lead to unimaginable inequality not just compared to other countries but also within the state, causing significant social tension. According to many researchers, this is what the origin of all problems of Latin-American countries are in the end.

Special attention is given to the pre-Chavezian area to really grasp the issues whose solution the people saw being realised by the election of *Hugo Chávez*. In the next chapter, the roles the international organisations have played in Venezuela's life will be discussed in detail. Throughout the paper, the importance of oil in the Venezuelan economy is be a significant theme.

The Chavezian era and its outcomes on both the short and the long run form the main part of the thesis. When talking about the internal situation, one must admit that the politically planned policies that were introduced by Chávez and his government actually did have sound social goals, the ones aimed at reducing poverty being the most commonly known. These policies are still today widely discussed and constantly re-interpreted to fig-

ure out whether they have had any positive effects, and if so, at what cost. After the evaluation of the economic and social policies in the Bolivarian, the role of Chávez' foreign policy is discussed together with the significance it has played in terms of promotion a multi-polar world; Venezuela's relation to the USA as well as the importance of Cuba as the country's most important ally are the two most interesting topics.

Two years after the iconic leader's death, the objectives that he had set have not been reached and without his personal charisma, the system he established seems to have come to an end. My main objective was to discover whether poverty really decreased significantly and permanently as a result of the social reforms and why exactly Venezuela is struggling – and to what extent is this due to the miscalculated Chavezian decisions. I wished to find out what the lessons are that other countries in similar situations could take away to avoid the same mistakes Venezuela made. And, most importantly: what does the future hold for Venezuela?

The research makes it clear that any form of socialism is doomed to fail even despite rising revenues and that the reduction in the number of those living in poverty is disputable at best. Also, one can draw the consequences that even though *Nicolás Maduro*'s mismanagement contributed to the current problems Venezuela is experiencing in both political, economic and social terms, the erosion of the system began under the presidency of his predecessor *Hugo Chávez*. It is clear that the country has to find its way out of the current situation by implementing serious reforms that would break away from the tradition of the past seventeen years. However, these changes would come at a political cost no party is willing to pay voluntarily.

Given by the nature of the topic, in-depth analyses were unfortunately not an option in this case. Instead, I focused my attention on acquiring as much trustworthy material as possible but look at the legacy of the Chávez-era from different points of view. I also rely on various statistics, even if, due to information bias, certain national sources cannot be entirely trusted. My aim was to create a comparative and descriptive work that is based on several views by synthesising relevant literature and drawing consequences from the statistical data. Moreover, to gain an even deeper understanding of the issue, I carried out an interview with *Zsuzsa Dömény*, a well-known and recognised Latin-America expert who specialised in researching poverty but herself lived in Venezuela for nearly eleven years. The interview proved to be essential in creating this thesis and I would like to express my gratitude to *Zsuzsa Dömény*. I would also like to show my appreciation to my external and internal consultants whose contributions were invaluable for this piece of work.

2. RESEARCH METHODS

Since the majority of this study required qualitative research, I heavily relied on the use of external sources as opposed to own calculations. This work is a mixed-method study since I decided to use both document analysis as well as a personal interview to gather sufficient information and analyse them accordingly.

Since my knowledge of Venezuela in general was rather insufficient, I first carried out an interview with *Zsuzsa Dömény*, a famous Latin America expert who had not only had a career in researching Latin American matters but had also lived in Venezuela for several years. For me, she was the perfect person to contact for two reasons. Firstly, she had a deep professional insight into the matter that I decided to choose as the topic of my thesis, meaning that she had years of experience in analysing the consequences of the social and economic policies of Chávez. Secondly, while her professionalism kept her unbiased, she experienced living in Venezuela herself having lived in the country for eleven years, which gave her knowledge a more personal but nonetheless accurate edge.

I started the interview by asking her general questions because first I was just looking to gain a general overview of the topic to help me structure my own thesis in terms of important topics and main themes. *Zsuzsa Dömény* started telling me the history of the country from the 1940s and that gave me the idea to follow a similar pattern in my own work and describe events preliminary to the reign of Chávez. Once she offered me a brief overview of the economic and social history of the country, I started asking open-ended questions that I thought could relate well to my thesis; for example, I was curious to know how Chávez could stay in power despite the lack of actual success of his policies. I also asked questions related to the role of the military as well as the financing of the Bolivarian Revolution because I thought these topics were crucial for my paper. In the end, our meeting was more of an in-depth interview rather than a structured interview with a fixed set of questions and I was interested to find out more about *Zsuzsa Dömény*'s professional experiences. I took notes throughout the entire session and used these to give my own work structure, including its main chapters and the most important topics.

I wanted to make sure I select the right literature so I decided to ask for help from those who are experts of the field. I asked my external consultant *Prof. Jorge Marchini* as well as *Zsuzsa Dömény* for trustworthy sources and both of them offered me some advice not only regarding books (which included books both in favour and against Chávez' poli-

cies) but also online sources such as the CEPAL website where I found unbiased economic and social data.

When choosing which books, journals and articles to use in my research, availability and relevance played an important role. For example, I personally thought it was important to obtain a general overview over Latin American history so I made sure I read *Open Veins of Latin America*, a classic by *Eduardo Galeano* written in the 1970s. I found it relatively easy to find information about the first few years of the Chavezian era, but it was rather difficult to find literature that contained detailed information about the rest of Chávez' reign that was not biased towards favouring the ex-military leader. Since this bias seemed to be unavoidable, I picked books by authors such as *Richard Gott* and *Gregory Wilpert*, both famous experts in Venezuelan history and economics, even if their works lean more towards supporting Chávez' actions. To balance that, I chose literature such as *Marciano et al.*'s book that took a critical approach towards the Chávez-government's policies. I thought it was important to not only read interpretations of the ex-colonel's words but also try to obtain first-hand information, so I decided to include *Chávez Frías'* and *Guevara March's* transcript of personal interviews with Hugo Chávez himself. For the majority of my research, however, I selected books and journals that were more factual and close to free of stating a political opinion.

Another problem I encountered when carrying out my research was the time frame of the literature at hand. As I had stated before, there were plenty of books and articles available that focused on the first few years of the Chávez-government but as the years went on, fewer and fewer scientific material was produced, especially by trustworthy sources. It was difficult to find any texts that were more thorough than an on-line article and this narrowed down my choice of literature significantly. Nonetheless, I managed to find some e-books and on-line journals such as *Cooper's* and *Heine's Which way Latin America?*, an engaging book that lays out the past, the present and the potential future of the entire continent. My main objective when choosing literature for my thesis were to find relevant information in regards to the scope of my work (i.e. have substantial information about Venezuela rather than just a generalised overview of Latin-America) and to make sure the data is not politically biased, or if so, the bias is clear and can be described and analysed within my own work.

When it came to on-line sources, the material at hand was plentiful but had to be carefully filtered. I found it easiest to rely on websites such as the online platforms of *The Economist*, *BBC News*, *Venezuelanalysis.com* or *Pulsamérica* that are known for their fac-

tual and trustworthy reports. Moreover, when researching quantitative data for economic and social indicators such as FDI, unemployment rate and so on, I decided that using information from the *World DataBank* would be the simplest and most accurate.

Another challenge was to select what information to include in my thesis. Naturally, since most of my physical books focused on one specific part of my thesis (namely the prelude and the first few years of the Chavezian era), I used different sources for different parts of my work. However, there were some overlaps in the topics and I often used triangulating (Bowen, 2009) which means researching the same information from various sources to avoid bias. For example, when writing about the Cuban-Venezuelan relations, I turned to several of my books including the works of *Ellner*, *Wilpert* and *Marcano* et al. to ensure that the information I write in my own work is in fact correct.

At times, there were also parts of certain sources that were thought-provoking but the information that was stated as a fact was hard to control and was indeed politically influenced. For instance, *Wilpert's Changing Venezuela by taking power* writes in detail about the payments the US-government had made to the opposition groups under the first years of the Chavezian era to weaken the government (Wilpert, 2007, pp. 170–174.). However, various sources state that these allegations had never been settled which means that including this information and presenting it as a fact would have hurt the credibility of my thesis.

Altogether, even though this thesis is heavily based on secondary information, I researched the topic thoroughly and only selected information for further processing that was proven to be trustworthy and relevant to my own work.

3. VENEZUELA AND THE WORLD

3.1. A BRIEF ECONOMIC HISTORY OF VENEZUELA AND THE LATIN-AMERICAN CONTINENT

When describing Venezuelan history, one notices that most Latin-American countries share a very similar story and that the fates of these states are strongly intertwined; therefore, it is impossible to discuss the history of one without those of others.

The area of the country that we now call the Bolivarian Republic of Venezuela was discovered in 1498 by *Christopher Columbus* and his crew, together with other areas in the New World (Venezuela Tuya, 2015). Soon after the discovery, the Spanish began to colonise the new continent step by step which were beneficiary to the colonisers but much less so for locals, causing unrest among them. Finally, on 5th July 1811 the country proclaimed independence and so the Venezuelan State was born (Venezuela Tuya, 2015).

During the early years of colonisation it was recognised that many parts of Latin-America such as Potosí in Bolivia held great reserves of silver and gold (Galeano et al., 1997, pp. 20–22.) while others were perfect for growing different types of plants ranging from sugar to coffee. As *Eduardo Galeano* mentions throughout in his rightfully famous book, *Open Veins of Latin-America* (1997), a new type of agriculture called monoculture was introduced to the newly colonised areas that were organised in *latifundia* which were owned by foreigners. In Venezuela it was cacao that was grown and harvested in immense quantities and dominated the country's exports for nearly two centuries from the 1620s onwards (Countrystudies.us, s.a.), while other products such as indigo, sugar, tobacco co-existed with a smaller importance (Wright, 1990, p. 17.). The dominance of cacao as the primary export product in Venezuela lasted until 1873 when the coffee era began; however, this still meant that the Venezuelan economy was exposed to external factors such as the cyclical changes of commodity prices, leaving the agricultural country in a rather dependent and vulnerable state (Galeano et al., 1997, p. 91.).

The wind of change swept through Venezuela upon the discovery of oil reserves in 1917 (Mähler, 2011, p. 589.); petroleum immediately became the primary source of income and remains the motor of the Venezuelan economy until the present day, making over 90% of the country's exports in 2013 which landed Venezuela among the biggest crude oil exporters globally (Atlas.cid.harvard.edu, 2015a).

However, the situation might change and Venezuela might see its imports to the USA reduced due to recent advances in fracking technologies to extract oil in the USA itself. Also, relying on yet another raw material as the primary source of export income has not eliminated the problem of economic dependency on price fluctuations that we have seen in the case of agricultural products; as oil prices fell by 40% from mid-2014 onwards, Venezuela experienced serious economic troubles (together with its other internal problems) and came close to defaulting on its debt (The Economist, 6th December 2014).

3.2. VENEZUELAN SOCIETY

When Spanish colonisers arrived and established themselves in the New World, they divided the land and conquered the new territories. They were, of course, not planning to work themselves but to use slave labour to complete all necessary work, and this has influenced the structure of today's Venezuelan society to a great deal.

Indigenous people were drawn away from their farms and forced to work in mines or on plantations often far from their homes which resulted in a geographical rearrangement of demographics, but was later switched for a system called *encomienda* that put a halt to the rapid relocation of Indians (Yeager, 1995, p. 843.). This kind of hard work, however, was not what Indian tribes were used to; they were treated as unequal to the conquistadors and were worked to death. Galeano talks about Indian genocide: "The Indians of the Americas totalled no less than 70 million when the foreign conquerors appeared on the horizon; a century and a half later they had been reduced to 3.5 million" (Galeano et al., 1997, p. 38.). In order to replace workers, slaves from Africa were brought to Latin-America in immense quantities, who, in time, mixed with indigenous and European groups, creating the now extremely diverse Venezuelan society. As we can see in *Figure 1*, the majority of the population is mestizo, referring to a mixed background of European and indigenous descent, while people of European origin only make up a fifth of today's society. Black and Amerindian (indigenous people) together make up about a ninth of the nation.

These statistics not only show the demographics of today but can also help understand the underlying causes of social tensions. In terms of wealth, there are enormous gaps among the earnings of different citizens and the inequalities are often a consequence of ethnic differences. Furthermore, inequality can also be seen in the way blacks and indigenous people have been acknowledged in the past. For example, only in 1957 did the high-

est court in Paraguay state that “the Indians, like other inhabitants of the republic, are human beings” (Galeano et al., 1997, p. 42.), which shows that these people have been treated as inferior citizens ever since colonial times, resulting in lower wages, worse living conditions, less rights as citizens and so on. One therefore should not be surprised that social tensions exist up till this day.

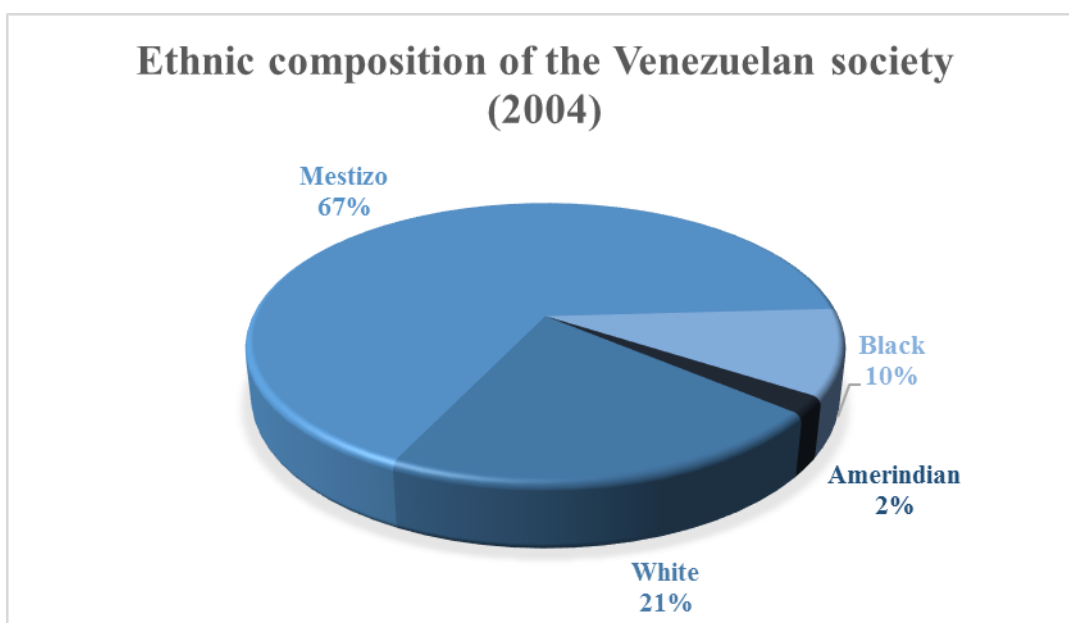


Figure 1: Venezuelan society in 2004

Source: Populstat.info (2004)

Many authors, including *Daron Acemoglu* and *James A. Robinson* emphasize the importance of education and have recognised the fact that lack of access to high-quality education is one of the reasons for economic inferiority in today’s developing countries, even if this lack of access is due to deeper, more hidden causes (Acemoglu and Robinson, 2013, p. 82.). For instance, the literacy rate in Venezuela is 96.3% (Cia.gov, 2015), showing an increasing tendency since it was estimated at 95.5% in 2009, positioning the country as 95th among all countries. As a comparison, neighbouring countries Colombia and Brazil rank as 114th and 131st respectively, while Chile, Uruguay and Argentina both have better scores, ranking as 57th, 61st and 68th respectively (World.bymap.org, 2014).

The biggest issue most Latin-American states face is inequality that is present not only compared to other, more developed countries, but even between the different social classes within the country; Venezuela is no exception. Thanks to Chávez’ efforts to achieve greater social equality, the Gini-index that measures the distribution of family in-

come in a country was 39 in 2011, and a significant reduction from 49.5 in 1998 can be observed (Cia.gov, 2015), meaning a shift towards a more equal distribution of income. However, other Latin-American countries had even higher Gini indices, including Argentina (43.6) and Chile (50.8) (Data.worldbank.org, 2015).

A related social indicator is poverty; according to CEPALSTAT, the statistical body of ECLAC¹, 32.1% of the population still lived in poverty in 2013, and the rural ratio is considerably worse than the urban one. The extreme poverty rate was 9.8% in the same year, meaning that nearly a tenth of the population lived under conditions that do not allow them to satisfy their basic human needs (Interwp.cepal.org, 2015a). In Brazil, the poverty rate only reached 18% in 2013 and the level of extreme poverty was just under 6% (Interwp.cepal.org, 2015b).

Yet another social indicator that can be related to poverty is unemployment rates. Both the national as well as the *International Labour Organisation* estimate show a significant decline in unemployment rates from the peak year of 2003 when nearly 17% of the labour force was without a job. This trend seems to have reversed after the global crisis of 2008 when the percentage of out-of-job individuals was below 7%; after that, unemployment levels started rising, but only slightly, reaching about 7.5% according to official statistics (Databank.worldbank.org, 2015a).

3.3. THE VENEZUELAN ECONOMY

3.3.1. Trade products and partners

Venezuela, as it was mentioned in Chapter 3.1, is one of the biggest oil exporters in the world. Crude and refined petroleum oils made up as much as 97% of the country's exports in 2013, while the rest consisted of different chemicals (such as fertilisers), metals meaning mainly iron and its compounds, gold and other, mainly industrial goods, bringing the total value of exports to about 144 billion US dollars (Atlas.cid.harvard.edu, 2015b). However, other sources seem to state a total of much lesser value, confirming between 90 billion US dollars (Cia.gov, 2015) and 103 billion US dollars (Interwp.cepal.org, 2015c), showing that even internationally recognised institutions' information might contradict. The reliance on a sole export product tells us that even minor changes in the price of petroleum have a significant effect on the country's income, hence influencing the possible

¹ *Economic Commission for Latin America and the Caribbean*; also abbreviated as CEPAL at times.

size of the budget and the entire economy. The falling oil prices the world experienced from mid-2014 onwards (see Chapter 3.1) and recent fracking activities in the USA have changed Venezuela’s position in the world market; this drop in the world price can mean a 16 billion US-dollar decrease in Venezuela’s cash flow in a twelve-month period that started in November 2014 (Berwick, 2014a). Berwick also mentioned that despite falling government revenues, expenditures are predicted to rise by 35%, exacerbating the budget deficit that stood at 16.9% at the end of 2014. This is what brought the Venezuelan economy extremely close to defaulting on its debt too (The Economist, 6th December 2014), worsening the already undesirable economic situation shaken by internal conflicts.

As we can see from *Figure 2*, Venezuela’s export were very concentrated geographically which has not changed a lot; three of its main consumers are located in Asia, purchasing nearly 55% of the country’s total exports, and the USA alone consuming almost a third of Venezuela’s total exports, making it the country’s biggest customer (Atlas.cid.harvard.edu, 2015c). It also becomes clear from the statistics that the European and Australian continents do not play an important role in the country’s life in terms of trade.

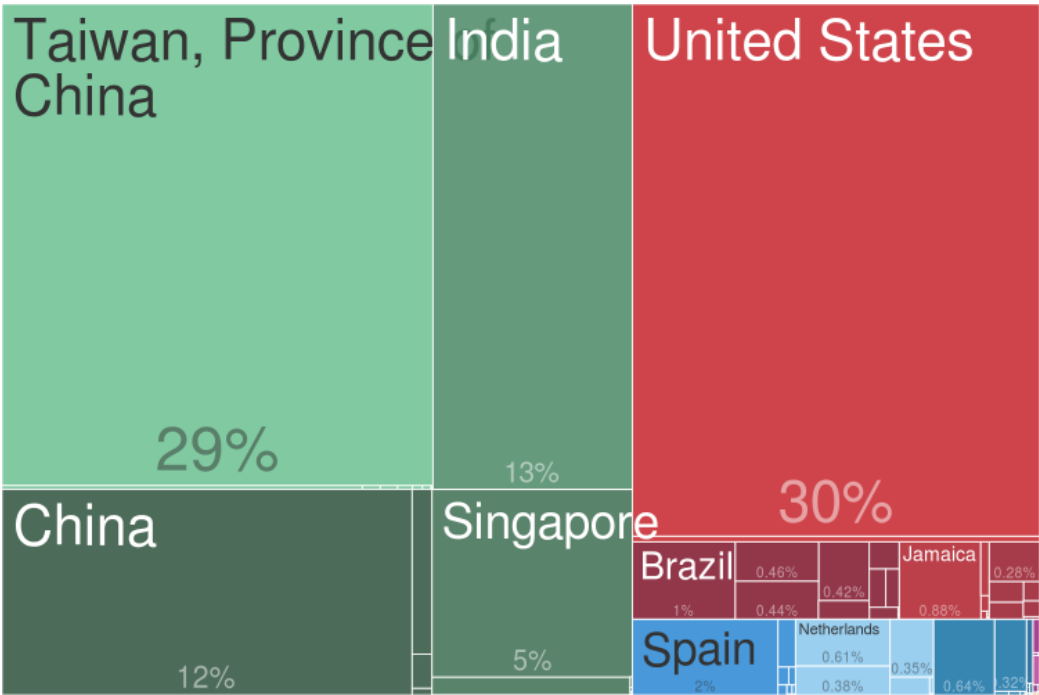


Figure 2: Where did Venezuela export in 2013?

Source: Atlas.cid.harvard.eu, 2015c

The volume of exports seems to decrease over time, according to statistics issues by ECLAC, which shows a trend of external trade volume indices that takes 2010 as a base

year. It seems that the volume index reached its high of over 145 base points in 1998, experiencing a steep drop in 2003, from which the country recovered, albeit not fully. Since reaching another peak of 136.8 base points in 2005, a constant decrease can be obtained. Several articles have reported a 4% drop in Venezuelan oil exports in 2014, mentioning the high hopes that accompany the extension of drilling at the Orinoco Oil Belt that is expected to result in an increase of petroleum production (and export) in 2015 at the same time (Eluniversal.com, 2015).

The range of imported products were and continue to be of a much larger variety for Venezuela, most of them being types of manufactured goods. This shows that Venezuela, as many other countries in Latin-America, is stuck in the same pattern on international division of labour that was established centuries ago by the Spanish colonisers (Galeano et al., 1997, p. 29.). It also involves Venezuela exporting raw materials and other commodities while it needs to purchase most manufactured goods for consumption that are produced in developed countries, leading to ever-increasing trade gap as raw materials become cheaper and processed goods more expensive (Galeano et al., 1997, p. 238.).

The imported products range from ATMs and transmission apparatuses for television to hair products, structures and parts of bridges, prefabricated buildings, raw foodstuff, other food, items of clothes, and, interestingly, petroleum oils and gases, although only to a minimal extent (Atlas.cid.harvard.edu, 2015d).

When looking at the sources of imports (see *Figure 3*), the importance of the USA as a trade partner becomes clear again, providing a whopping 23% share of Venezuela's imports. The top 3 importers also include China and Brazil, with 13% and 11% respectively; this means that nearly 50% of Venezuela's imports come from three countries, which signifies a rather concentrated market. However, the rest of the imports sources is more divided with no country taking a more significant share, although the importance of Latin-America and Europe prevails. (Atlas.cid.harvard.edu, 2015e). These are partly due to the various trading agreements in place that eliminate trade barriers which will be discussed next.

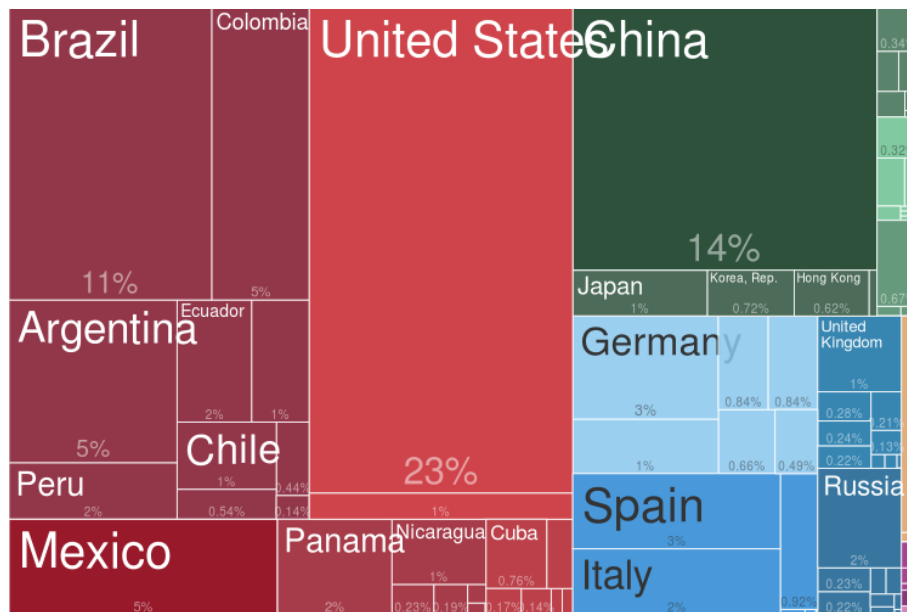


Figure 3: Where did Venezuela import from in 2013?

Source: Atlas.cid.harvard.eu, 2015e

3.3.2. International economic and trade organisations

3.3.2.1. Oil-related organisations

From Venezuela's point of view, international groupings of countries that focus on the production, price and trade on petroleum are of primary importance, since the country's economy heavily relies on these products (Chapter 3.3.1). The most important ones out of these for Venezuela are OPEC² and *Petrocaribe*³.

OPEC was established in September 1960 by five countries, namely Iran, Iraq, Kuwait, Saudi Arabia and Venezuela: the market leaders in petroleum exports. They have later been joined by nine other countries but the objectives have never changed: their aims remain “to co-ordinate and unify petroleum policies among Member Countries, in order to secure fair and stable prices for petroleum producers; an efficient, economic and regular supply of petroleum to consuming nations; and a fair return on capital to those investing in the industry” (Opec.org, 2015a). Throughout its operation, OPEC has met and overcome difficulties including the domination of the “Seven Sisters”, the multinational oil companies in the 1960s, the crashing oil prices of 1986 and the recession of 2008 (Opec.org, 2015a). However, OPEC did not take action despite Venezuela's request towards the end of 2014, when a surplus of oil was present in the global economy due to a highly increased

² Organisation of the Petroleum Exporting Countries

³ There are further similar organisations such as *Petroamérica*, *Petroandina* and *Petrosur*.

production in the USA, depressing global oil prices that shook the Venezuelan economy (Chmaytelli et al., 2014). The article also quotes *Harry Tchilingurian* saying that OPEC has given up its role and decided to withdraw its control from the oil market, leaving prices to be the subject of market conditions. The institution held a conference on the 5th of June 2015 and agreed to maintain mutual communication with the main petroleum-producing countries and reinforced oil market stability as the main objective. OPEC countries' representatives will meet again at the end of 2015 to discuss further matters, even if it seems that the market has somewhat stabilised (Opec.org, 2015b).

Petrocaribe was established much later, in 2005, by 14 countries that are geographically concentrated in the Caribbean region, as well as in Central-America and the northern part of South-America. These states founded the organisation because they felt insecure about the global energy market and especially the actions of industrialised countries that could potentially lead to an even greater inequality and a higher level of dependency of developing countries. The institution, established by the *Energy Cooperation Agreement*, has a socially defined agenda that aims to protect the member countries' citizens against the negative consequences that could arise from the lack of fair trade for instance. Petrocaribe is a regional initiative so the leaders believe that a higher degree of co-operation can be achieved due to their geographical and economic closeness. Venezuela played a leading role in the creation of the organisation and seems to continue to be the advocate of the cause of "fair trade, complementariness, solidarity, social justice and common will to develop" (Petrocaribe.org, 2015). Also, as the main figure of Petrocaribe, Venezuela will be able to regain its role of the major oil exporter in a regional context, in a circle of countries to whom it shares strong cultural and historical ties. The institution has been fairly successful so far; its actions include various development projects, the creation of mixed-ownership companies, the creation of a long-term supply strategy for member countries and several social projects in areas such as education and housing.

3.3.2.2. Regional organisations

When it comes to Venezuela being a member of regional organisations, one realises that most of them put the biggest emphasis on co-operation and integrity of the region as opposed to just trade, with MERCOSUR⁴ being a single but very important exception.

⁴ Southern Common Market

One of these organisations is CELAC⁵. The institution was established with as a politically directed organization that unites 33 countries of the Americas, excluding the USA and Canada. It came into being in December 2008 at a meeting in Brazil, but only gained momentum at the *Caracas Summit* in December 2011 under the leadership of *Hugo Chávez*. It acts as a forum for political, economic, social and cultural dialogue and works in line with the directives of other regional organisations. CELAC seeks to unify to voice of Latin-America in possible international disputes and strengthen the intergovernmental ties within the organisation (Latinreporters.com, s.a.).

The other main regional institution is OAS⁶. It is considered to be the world's oldest regional organisation with a historical start of 1889 in Washington D.C. It was officially called to life in 1948 in Bogotá and several *Protocols* have been signed since then (the latest in 1992) to reinforce the operations of the organisation. It contains 35 independent states as members and also 69 permanent observers as well as the EU (Oas.org, 2015a). The objectives of the OAS various goals such as strengthening the security of the continent and promoting the member states' economic, social and cultural development as well as eradicating extreme poverty (Oas.org, 2015b). Venezuela has been a member since 1948 and is constantly assessed and monitored by the organisation on various scales, including democracy and human rights or the economic situation of the different social classes.

There are numerous other regional organisations that incorporate Venezuela, such as SELA⁷, LAIA⁸ and UNASUR⁹. All of these work in different ways but towards the same goal: to establish an economically, culturally, socially and politically united region in the south of the Americas. ALBA¹⁰ is also more of an intergovernmental organisation that was established based on ideological and political motivations and co-founded by *Hugo Chávez*.

However, there is an organisation that is focused primarily on promoting free trade among its member and associate states, and that is MERCOSUR. It is an institution that was originally founded in 1991 by Argentina, Brazil, Paraguay and Uruguay but now incorporates Venezuela and Bolivia as well, the latter being in the last phase of gaining a

⁵ *Community of Latin American and Caribbean States.*

⁶ *Organisation of American States*

⁷ *Latin American and Caribbean Economic System*

⁸ *Latin American Integration Association*

⁹ *Union of South American Nations*

¹⁰ *Bolivarian Alliance for the Peoples of Our America*

membership. The main goal of the organisation is to foster a common environment that generates trade and investment through competitive integration of Latin-American states. As a full member since 2012, Venezuela can take advantage of the barrier-free trade within the organisation, as well as of the numerous agreements MERCOSUR has signed with a number of organisations and nations (Mercosur.int, 2015). It is suspected to have a political agenda as it mainly includes countries with leftist governments, but the main economies (Argentina and Brazil) stay strictly focused on economic issues, so despite Venezuela's membership, it cannot be labelled as anti-US (Klonsky et al., 2012). The Pacific Alliance, another trade bloc in the Americas, operates simultaneously with MERCOSUR but they have walked different roads of growth; while the Pacific Alliance is gaining momentum and importance, MERCOSUR seems to be on the decline as its member states' GDP growth has been sluggish in recent years, affecting internal and external trade both. A union of the two blocs in the future would be ideal from an economic point of view, but these hopes may be in vain due to the ideological differences between the two organisations (Navarez, 2015a).

3.3.3. Significant economic indicators

Currently, Venezuela is ranked as 131st in terms of competitiveness, showing a slightly decreasing tendency (Global Competitiveness Report 2014-2015, World Economic Forum, 2015). The *World Economic Forum* measures the states' competitiveness based on 12 pillars – each consisting of subcategories – which can also be seen on *Figure 4*. By looking at the pillars one can see that the competitiveness index is well-rounded and tells a lot more about a country's economy and general performance than a single indicator such as the amount of FDI. The results are well-visualised and performance in each pillar can be viewed individually which helps observers gain a better understanding of the country.

As *Figure 4* shows (on which the various pillars are located clockwise), Venezuela did not do well in most areas regarding economic performance in the strict definition of the expression; in terms of Institutions, for instance, the country only ranked 144th after a continuously decreasing tendency over the past few years. This pillar includes factors such as property rights, ethics and corruption, diversion of public funds, irregular payments and bribes, organised crime, reliability of police services and so on. The poor performance in this category, resulting in feeble economic results, also shows that politics and economics

strongly intertwine in Venezuela's life and also that the citizens' safety and social well-being is deteriorating.

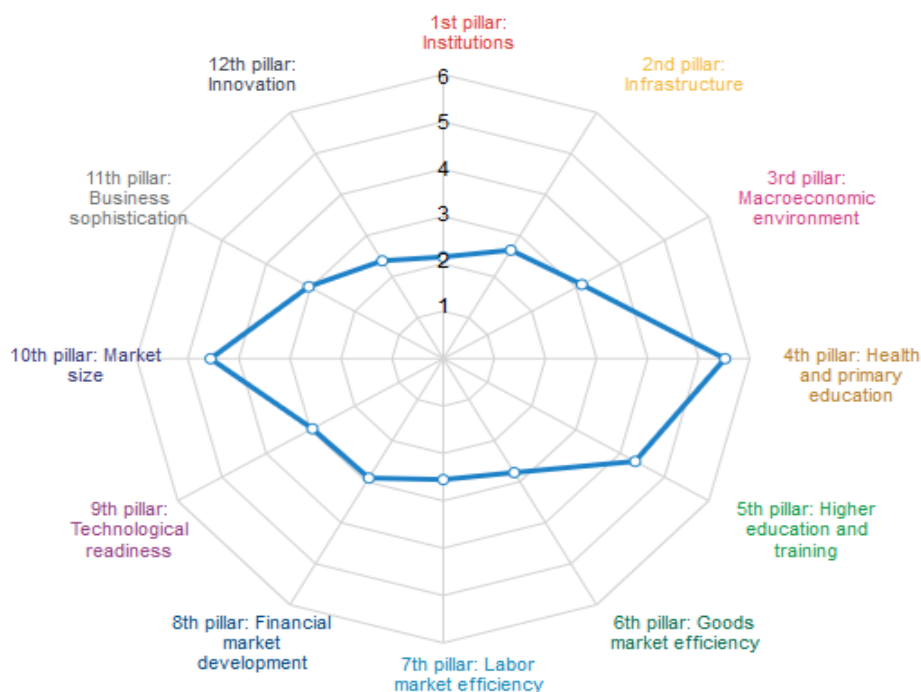


Figure 4: Venezuela's performance in the twelve pillars of competitiveness, 2014-2015

Source: World Economic Forum (2015)

Other areas where Venezuela experienced unsatisfactory results include nearly all of the above mentioned pillars, with the exception of the social factors on which *Hugo Chávez*' policies also focused; these pillars and Venezuela's global ranking in them are Health and primary education (87th) and Higher education and training (70th). The third field where Venezuela ranks well (40th globally) is Market size, which has shown a stagnating tendency over the years (Global Competitiveness Report 2014-2015, World Economic Forum, 2015). This takes both the domestic and the foreign market size into account, including changes in export, which also reflects the effects of falling oil prices that I have already described (see Chapters 3.1 and 3.3.1). Nonetheless, current and future Venezuelan leaders will have a lot to do to improve the country's performance.

According to the statistics of *The World Bank*, over the years after 2003, a steady and significant growth in the value of GDP could be observed for seven years straight. After 2010, however, the performance became a lot more volatile with significant year-

on-year changes, hitting a recent low in 2011 at 301 billion US-dollars (on 2014 value). In 2014, Venezuela's GDP in US dollars was about 509 billion (on 2014 value), which shows an increasing performance compared to the previous year. The volatility is also visible in the annual GDP growth (expressed in percentage), which does seem to be a trademark of the Venezuelan economy. In 2014, GDP fell by 4%; this is the first time the economy experienced negative growth rates since the aftermath of the global crisis of 2007-2008 (Databank.worldbank.org, 2015a). Numerous articles predict and even steeper decline for the year of 2015, such as *FocusEconomics.com* forecasting a 5.9% contraction in terms of GDP change (16th of June 2015), and IMF-official *Alejandro Werner* putting the possible fall at 7%, calling it "the worst recession in Latin-America in 2015" due to the predicted decline in global oil prices (iMFdirect - The IMF Blog, 21st of January 2015).

The net inflows of FDI, however, is an indicator that has shown a reasonable recovery in the past few years from the low of over -2.5 billion US dollars (on 2014 value) in 2009 when foreign investors were fleeing the country (Databank.worldbank.org, 2015a), supposedly as a result of Chávez' policy that aimed at marginalising private sector capital that acted as a disincentive for companies to invest (Toro, 2012). 2009 was the only year of negative balance of payments in the recent economic history of the country, and the growing trend seems to continue; the net inflows of FDI reached nearly 7 billion US-dollars (on 2014 value) in 2013 (Databank.worldbank.org, 2015a).

When it comes to indebtedness, instead of looking at absolute figures, it is much more informative to look at the value of debt compared to the country's output, which can be measured various ways, but the two most preferred methods are taking the GDP or the GNI as the base. In Venezuela's case, as demonstrated in *Figure 5*, debt stock as a

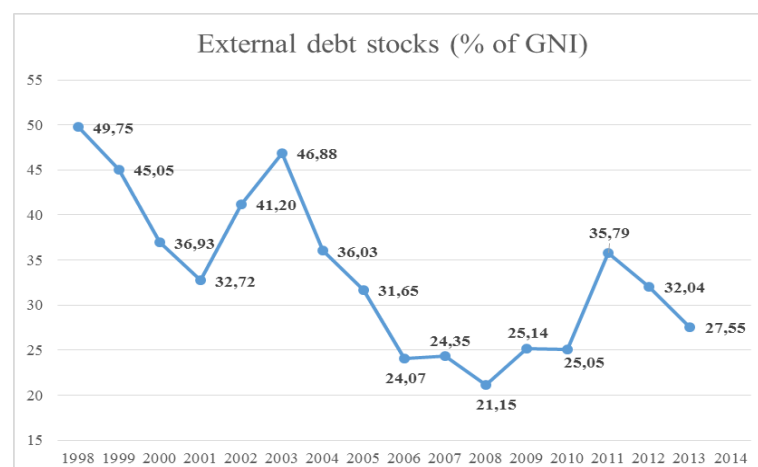


Figure 5: External debt stocks (% of GNI) in Venezuela, 1998-2013

Source: Databank.worldbank.org (2015a)

percentage of GNI have been rather volatile, but have shown a steadily decreasing trend between 2003 and 2008, when the ratio was reduced by nearly 26%, meaning a steady payback of outstanding debts to creditors enabled by constantly growing income from petroleum exports.

However, after 2008, debt levels started to rise again and have been fluctuating in the past few years, constantly climbing higher, reaching 35.8% in 2011; in the next two years, however, it seemed that the indebtedness ratio will decrease again (Databank.worldbank.org, 2015a). Unfortunately, the sharp fall in oil prices have caused debt level to soar to as high as 51.4% of the GDP (Cia.gov, 2015), threatening with a default and therefore urging Fitch to downgrade Venezuela's credit rating to CCC (CNBC, 2014), which is still valid today. The two sources of data are not fully comparable as one measures indebtedness compared to GNI while the other uses GDP, but the two indicators have been moving in sync and one can say that the difference in the debt ratios is therefore negligible (Databank.worldbank.org, 2015a).

Inflation rates were also heavily affected in recent years. From a European point of view, Venezuelan annual inflation rates have always been incredibly high, with the average of 25.6% between 2009 and 2012, showing a slight decrease in tendency. However, after the death of *Hugo Chávez* in early 2013, the policies that have been put in place could not be sustained any more without causing serious disruptions. This became visible in many ways, and one of them was shortages in consumer goods which was only one of the reasons that drove up inflation to over 62% in 2014 which means hyperinflation (Databank.worldbank.org, 2015a); some predict the annual inflation rate to reach 200% in 2015 (Rosati, 2015). Hyperinflation will be discussed later on in Chapter 6.1.

It is clearly visible that Venezuela is heading towards a challenging but fascinating economic era that may redefine the country's fate for the long run. However, to know what the future holds, we need to understand how Venezuela came to its current situation.

4. PRELUDES OF CHÁVEZ TAKING POWER

The majority of people who are not experts in the topic often wonder how a radically leftist military leader such as Chávez could come to power on 6th of December in 1998 (Gott, 2005, p. 2.), obtaining an overwhelming victory by winning 56.2% of the votes (Gott, 2005, p. 139.). Chávez' rise and popularity as a political leader, eventually leading to his election as a president, would not have taken place without the turbulent history of the country, and especially the happenings of 1989 and onwards; in a way, his electoral victory in 1998 was “in many ways the logical consequence of what had come before” (Wilpert, 2007, p. 18.).

4.1. THE PACT OF PUNTO FIJO AND ITS SIGNIFICANCE

For decades, Venezuela's political (and, therefore, economic) life was cemented via an arrangement called the *Pact of Punto Fijo* that was signed by all major political parties – most importantly *Acción Democrática* and *Comité de Organización Política Electoral Independiente* (Wilpert, 2007, p. 12.) – in 1958, enabling them to consolidate their power by excluding leftist actors from possibly entering the political field (Levine, 2002, p. 248.). The pact was supposed to bring stability not only to the politics of Venezuela, but also to the country's economy, allowing it to develop more rapidly without constant political conflicts; the increasing oil revenues could be put to use more efficiently in a more liberal and conflict-free environment¹¹. A typical dual-party system that functioned in relative peace was established (Levine, 2002, p. 250.) that gave no other force a chance to bring about change in a constitutional way.

However, the success of the agreement did not last long. A constantly increasing dissatisfaction of the people with the system of democracy is to be observed (Derham, 2002, p. 283; Wilpert, 2007, p. 13.), leaving people apathetic and in search of new answers to their old problems. Also, the relative political calm only lasted until oil revenues were high and no major economic turbulence occurred. National income from oil started declining towards the end of 1979, the year when the country entered a 20-year economic downturn, leading to serious issues such as indebtedness and a decline in per capita GDP and a rise in poverty rates among others (Wilpert, 2007, p. 13.).

¹¹ Based on a personal interview with Zsuzsa Dömény on the 9th of January in 2015.

4.2. THE GREAT TURN AROUND AND CARACAZO

In 1989, *President Carlos Andrés Pérez* took a U-turn in his policies – often called “*el grand viaje*”, the great turn around (Gott, 2005, p. 50.) – compared to his first term in the 1970s when he represented a “strong statist line” including the nationalisation of foreign oil companies and regular state intervention in private industries (Gott, 2005, pp. 21–24.). In the early days of 1989, resident Pérez introduced a neo-liberal “structural-adjustment” reform package (Wilpert, 2007, p. 14.; Gott, 2005, p. 50.). This, among other measures, included the free exchange rate of the national currency compared to the US-dollar, financial aid from the IMF and many other policies. The package is often referred to as the “*Washington Consensus*” that consists of ten main areas of improvement, which range from reduction in public expenditure, tax reforms, trade liberalisation, privatisation and deregulation; more or less the opposite of what has been taking place in Venezuela before (Gott, 2005, pp. 50–52.) In my opinion, the changes suggested are not fundamentally wrong since the Venezuelan economy desperately needed reforms to alleviate its structural crisis. However, many country-specific factors, such as the economy’s dependence on a single commodity, or the extent and scale of corruption were not taken into consideration upon the introduction of the package. Moreover, the adjustments were not gradual enough which allowed rapid changes, leading to fatal consequences.

On the 27th of February 1989, the day of *Caracazo*, rioting and looting took place in many major cities of Venezuela which were subsequently repressed by the military. The upheaval’s immediate cause can be directly linked to the above mentioned neo-liberal package; rising petrol prices, which was part of the adjustments, led to doubling bus fares which caused great dissatisfaction among the already disappointed population experiencing that turned to violent means of expressing their opinion (López Maya 2003, pp. 123–129., cited in Ellner, 2008, pp. 94–95.). According to Gott (2005, p. 44.), “*Caracazo* marked the beginning of the end of Venezuela’s *ancien régime*¹²”. Apart from the high death toll (somewhere between 300 and 3000 according to Wilpert (2007, p. 17.)) and the significant financial losses, the deterioration of the public image of the military occurred, leading to discontent in the armed forces, whose restoration was among Chávez’ main objectives (see Chapter 5.3.1 for his military-civilian unity).

¹² The phrase *ancien régime* refers to the *Pact of Punto Fijo* and the decades of two-party system that followed.

4.3. CHÁVEZ' APPEARANCE AND OTHER EVENTS ON THE POLITICAL SCENE

Chávez himself came from a family that has taken an active role in the country's politics (Gott, 2005, p. 27.; Marcano et al., 2007, pp. 249–254.) so him participating in it was a matter of time. As a member of the military, he had access to higher education where he met most of his later political allies and friends, including those who heled him create his first movement within the army called *MBR-200*, which was later changed to *MVR* and was turned into a political party (Gott, 2005, p. 38.).

Chávez' operations had been low-key for years, but his aim was to perform a coup d'état to overthrow the prevailing government and build a system based on one of his idol's, *Simon Rodríguez*'s words: "*O inventamos o erramos*" (Rodríguez, cited by Azzellini on Herramienta.com.ar, s.a.), referring to the fact that he was in search for a new way of governing and that all paths that have been taken before are false and not to be followed.

The first planned coup d'état of February 1992, even though it failed and the organisers were given prison sentences, brought about Chávez' support by the population which substantially contributed to his success in the elections in 1998. After the failure of the putsch, Chávez was able to give a brief speech on television which was the turning point in terms of his popularity; he turned "into a national figure" (Gott, 2005, p. 67.) in just a minute. His speech was short and to the point, and two simple phrases were responsible for catching the people's attention and giving them hope. One of them was the fact that Chávez indeed took responsibility for everything that has happened during the attempted overthrow, which has not occurred in Venezuelan politics before and was a breath of fresh air in the oppressed political scene. The other significant detail in the speech was "*por ahora*", meaning "for now", which was used when explaining that the goals of the coup have not been achieved. The phrase was interpreted as a promise by most and gave the nation hope for a possible change of events in the near future (Marcano et al., 2007, pp. 73–75; Gott, 2005, p. 67.).

In the period of 1992-1998, a number of serious changes have happened that transformed Venezuelan politics. The most important factor to consider, however, is that the support and strength of the parties that had signed the *Pact of Punto Fijo* was disappearing, creating a political vacuum that gave place to new parties and organisations (especially to leftist ones) for the first time in decades. This allowed parties such as *Movimiento al Socialismo* and *La Causa R* among others to let their voice be heard and take part in the political events (Gott, 2005, p. 120.). In the end, Chávez was leading an alliance of several

smaller parties under the name of *Polo Patriótico* in the 1998 elections. The party did not have a concrete programme but the campaign was directed at the middle class and the poor of the country which gave the majority of the votes. The uncertainty, unreliability and unpopularity of the old parties meant a break away from tradition and a search towards fresh participants in politics, which gave Chávez' party a huge advantage, despite the media owned by the Venezuelan oligarchy trying to run a campaign against the colonel (Chávez Frías and Guevara March, 2005, p. 21.). However, Chávez' personal image and rhetoric had a large positive influence on the turnout and led the organisation to success, enabling Chávez' election as president, who could not start fulfilling his dreams of Venezuela (Gott, 2005, pp. 137–139.).

5. CHÁVEZ' VENEZUELA

5.1. THE STRUGGLES OF THE FIRST FEW YEARS IN POWER

As we can see from the previous chapter, politics and economics go hand in hand in Venezuela, more so than anywhere else which is mainly due to the country's extreme dependence of a single factor, namely oil revenues. Therefore, falling oil prices cause not only economic, but also political instability that undermines the power of the prevailing political party. In previous chapters I have also described the great influence politics has on the economy, which, as we will see, is about to be transformed but not eliminated during Chávez' presidency.

A highly important fact to mention is that Chávez' policies were not as radical in the beginning as one would think; the policies he suggested were not vastly different from those of his predecessors during his first years in office that would suggest a radical shift (Marcano et al., 2007, p. 268.). However, due to constant attempts from the opposition to overthrow him, the ex-colonel turned to more and more drastic measures; in this sense, one can talk of a "vicious cycle of counter-revolution and radicalization" (Wilpert, 2007, p. 19.), meaning that Chávez' move onto a more revolutionary path was a reaction to the attacks from the opposition and not the other way around (Wilpert, 2007, p. 28.). However, he has given some speeches that indicated his radical views years before he ran for president; in 1995 he told historian *Agustín Blanco Muñoz* the following: "So what if they call me a radical, a revolutionary? That's exactly what I am, and I believe that's exactly what I have to be" (Muñoz, 2003, p. 332., cited in Marcano et al., 2007, p. 23.). He has never concealed that he wanted to bring about revolutionary changes that would shake up Venezuela; there are several examples to illustrate this in his own speeches, such as the one he gave on the 24th of July in 1998, months before the presidential election, when he said: "Let the whole world know that in Venezuela, a true social revolution is now under way. Nothing and nobody will be able to stand in the way of the triumph of the democratic revolution" (El Nacional, 24th July, 1998, cited in Marcano et al., 2007, p. 18.).

After the victory in the 1998 election, Chávez' first and foremost objectives, despite the popular opinion, were not to eliminate poverty or any other social policies. His primary goal was to introduce a brand-new constitution in place of the one written in 1961, which was part of his plan in reducing the old (political and economic) elite's power in Venezuela (Wilpert, 2007, p. 21.) and strengthening their own (Acemoglu and Robinson,

2013, p. 316.). The new constitution was introduced with record-speed to lay down the groundwork for the establishment of a “*Democratic and Social State of Law and Justice*” (Venezuelanalysis.com, 2015), mainly directed at eliminating the old parties from the country’s political, economic and social life; it includes new regulations for the governing bodies of the country as well as a ban on privatisation of the oil industry (Wilpert, 2007, p. 22.). A lot of articles are directed at the protection of indigenous rights, social human rights and land reforms which gave a boost to the president’s popularity among the poor and the middle class but resulted in even greater criticism and dissatisfaction from the opposition, represented by the mostly white, wealthy minority of the country. Other policies that were introduced in these early years involve the 49 controversial decrees that were implemented in November 2002, including the land reform that divided up the *latifundia* of previous landowners, the *Hydrocarbons Law* meaning higher oil royalties and many other policies that aimed to weaken the influence of the old elite and give more power to the state and the society (Gott, 2005, pp. 219–221.).

Naturally, the new way of governing by Chávez was in conflict with the interests of the new elite, who therefore tried to undermine his power in several ways. One of the most important events was the attempted coup d’état of April 2002 that lasted 47 hours and ended in about a million people of the slums of Venezuela demanding the restoration of *Hugo Chávez* as president. The media, still controlled by the old wealthy elite, played a significant role in the turmoil that caused misinformation among not just civilians but also the military, broadcasting that Chávez resigned. In the end, the opposition was defeated and Chávez’ presidency was restored (Chávez Frías and Guevara March, 2005, p. 67. p.135.; Gott, 2005, pp. 224–237.). A second attempt for overthrowing Chávez took place later that year in December and involved the complete stop of the oil industry for months. However, this attempt also failed due to Chávez’ reinforced position by the military, a change in the international situation and the “awakening political consciousness of the poor” which also meant that they bore the shortages caused by the economic coup well. Also, the opposition proved more divided and less powerful than they thought, making the success of such a sabotage unlikely. After the failure of the strike, the PDVSA¹³ was dramatically transformed by the dismissal of over 18 000 employees altogether and the placement of loyal Chávez-followers in strategic positions (Gott, 2005, pp. 249–253.).

¹³ *Petróleos de Venezuela* is Venezuela’s state oil company.

After the failure of the coups, the opposition realised that the only way they could possibly remove the president from office was in constitutional ways. The new constitution provided a possibility for a so-called recall referendum¹⁴ which the opposition found a viable way to once more prove that they are in majority and that the current government does not serve the country well. However, in August 2004 Chávez was in strong position due to the new voter registration drive that included more new voters that favoured Chávez, the high world oil price that brought economic stability to Venezuela as well as the international positive image. This means that even though the requirements to initiate a recall referendum were fulfilled and it took place, the president won nearly 60% of the votes. (Gott, 2005, pp. 260–263.).

All three attempts of the opposition to overthrow Chávez, whether via military power or via constitutional methods, ended in failure, only strengthening the ex-colonel's position as the country's president (Marcano et al., 2007, p. 186.). The reinforcement of his legitimacy as a strong political leader allowed him to shift his attention from political conflicts to the need for economic reforms in both within the oil industry and outside. His main focus, however, became to seek for real changes in matters that were close to his heart: a military-civilian union, endogenous growth¹⁵, Latin-American integration based on Bolívar's ideas as well as land, education, health and poverty reforms.

5.2. CHÁVEZ' ECONOMIC POLICIES

As it has been mentioned several times before, even though Chávez' presidential campaign in 1998 focused on reducing poverty and land reforms, removing members of the old elite and stabilising the political, judicial and legal situation (and his own power) enjoyed priority. However, the president was fully aware of the need for change in both economic and social terms and acted accordingly via the implementation of reforms, the most important of which are described below.

¹⁴ In reality, the new constitution allows 4 types of referenda: consultative, recall, approving and rescinding (Wilpert, 2007, pp. 34–35.). The referendum held in 2003 is popularly referred to as a recall referendum, when in reality it was a consultative referendum.

¹⁵ The Chávez-government defined endogenous growth along the lines of community participation, cooperation and solidarity and reliance of existing resources and needs (Wilpert, 2007, p. 80.).

5.2.1. The Venezuelan economy and its reforms

Views on Chávez' actions in the field of economy differ significantly; some see him as the president who reformed the economic landscape significantly via nationalisations, state interventions and focus on endogenous, self-supporting growth. *Luis Miquilena*, Chávez' former right hand who resigned from the government and joined the opposition, however, says: "You haven't touched a single hair on the ass of anyone in the economic sector! You have created the most neoliberal economy Venezuela has ever known" (Wilpert, 2007, p. 149.), claiming that the rhetoric of Chávez does not necessarily match his actions. However, other sources claim that the 49 decrees introduced in November 2001 proved those who said that "Chávez was a neoliberal disguised as a revolutionary" wrong (Ellner, 2008, p. 113.). Moreover, many claim that the Chávez presidency lacked "well defined long-term goals" (Ellner, 2008, p. 109.), which also showed in the disorganised manner of how economic policies were implemented. Nonetheless, the president has introduced some rather radical measures during his three consecutive terms that have had a significant impact on Venezuela that can still be felt today.

5.2.1.1. Economic reforms 1999-2007

The first set of interrelated economic objectives were announced in 2001 for the upcoming six years of Chávez' presidency, consisting of six goals altogether, these being: sustainable economic growth, elimination of economic volatility, internalisation of oil production, development of a strong "social" economy, achievement of fiscal sustainability and increase of national savings and interest rates (Ministerio de Planificación y Desarrollo, 2001, cited in Wilpert, 2007, pp. 69–70.). The government strived to achieve these objective via various measures, but the main problem was that the majority of the decisions were not based on economic theory and were not taken by competent persons, but they were rather politically driven, aimed at maintaining and increasing Chávez' popularity.¹⁶

5.2.1.1.1. Oil industry-related policies

The government realized that the engine of the Venezuelan economy has been and still is the production of oil, and that the country is too dependent on the oil revenues that derive from exports. Some of the policies connected to oil aim to reduce the country's dependence via diversifying the economy by improving the state of the agricultural sector to be

¹⁶ Based on a personal interview with Zsuzsa Dömény on the 9th of January in 2015.

self-sufficient in food stuff (Petras and Veltmeyer, 2009, p. 171.) for example; this was also important to overcome the so-called Dutch Disease (Wilpert, 2007, p. 70.). The phenomenon is defined often as negative, since the success and rapid development of one industry (in Venezuela's case, that of the petroleum sector) leads to a neglect of other sectors, resulting in an unequal, and, therefore, vulnerable economy (Pettinger, 2014). The reduction of reliance on oil revenues was also important to reduce economic volatility which was often occurred because of the changes in the global price of oil.

Another important factor in stabilising the economy by reducing volatility was to achieve a relatively high and stable global oil price. The most efficient way to do it was to strengthen the position of OPEC within the global market and enforce its regulations in member countries. Therefore, Chávez called the OPEC meeting to life in 2000 to be organised in Caracas which proved to be rather successful. From there on, the organisation really acted as a bloc; a price band was introduced (Gott, 2005, p. 171.) and member states adhered the fixed quotas that also helped the price of oil to rise, reaching 50 US-dollars per barrel in September 2006 which was a major achievement after the constant decline that resulted in a 10.8 US-dollar oil price per barrel (Marcano et al., 2007, pp. 164–165.).

Yet another policy can be connected to the oil industry was the ban on privatisation in the constitution (see Chapter 5.1) as well as the *Organic Hydrocarbons Law* that was one of the 49 decrees issued in November 2001 and it was aimed to reverse the Oil opening program of the previous government by announcing a majority ownership in mixed oil companies (Ellner, 2008, p. 113.), decreased taxes (from 59% to 50%) and raised royalties (to 30%) (Wilpert, 2007, p. 95.), since it was a lot easier to control the payment of the latter than that of the former, and allowed greater insight into the operations of oil firms (Ellner and Tinker Salas, 2007, p. 65.).

Moreover, the state-run oil company PDSVA that has functioned as a “state within the state” (Gott, 2005, p. 170.) by disregarding regulations and OPEC measures was reformed. Changes were hard to implement as the old elite still had a big influence on the company's operations, which is how the “economic coup of December 2002” (Gott, 2005, p. 249.) could even be organised. This event, however, helped Chávez reorganise the entire organisation by dismissing 18 000 people (Ellner and Tinker Salas, 2007, p. 65.) and giving jobs to people loyal to the idea of the Bolivarian Revolution, including the “reincorporation of retired employees” (Gott, 2005, p. 253.). These reforms allowed Chávez to have greater influence on the company which means that he could reinforce the OPEC

measures, monitor the operations of the PDSVA himself and implement the changes he wanted to see in the oil industry (Wilpert, 2007, p. 95.).

The establishment of FEM¹⁷ was also part of the policies aimed at reducing economic volatility. Its operations were simple: whenever oil prices exceeded the average price of the previous five years, the extra income would be channelled into the fund that could be used to boost the economy when oil prices fall, hence offsetting the volatility caused by the fluctuations of global oil prices, also reducing the negative effect of oil dependence of the country. Even though the idea itself is noble, the FEM has not been as successful as expected; even though it proved helpful in the years of 2002-2003, no new savings were made in following years despite high oil prices. Also, Chávez and *Rafael Ramirez*, the oil and energy minister announced in 2003 that oil prices look to remain stable for the future, therefore the FEM would no longer be necessary (Wilpert, 2007, p. 74-75.).

The above mentioned policies, when considered altogether, signal to me that even though Chávez was determined to bring about changes in the oil industry, the country's economy still remained reliant on the petroleum sector, and this dependence is one of the major causes of economic disruptions in Venezuela even today.

Also, Chávez' and Ramirez' remark suggests that they presupposed continually growing oil revenues due to stable (and increasing) oil prices, meaning that the financial planning and implementation of all other policies – mainly the social reforms – were based on this assumption. Luckily, Chávez' predictions came true and global oil prices did see a constant and stable increase in the 2001-2007 period, nearly tripling during his presidency, as *Figure 6* also suggests, which enabled the financing of the planned social reforms.

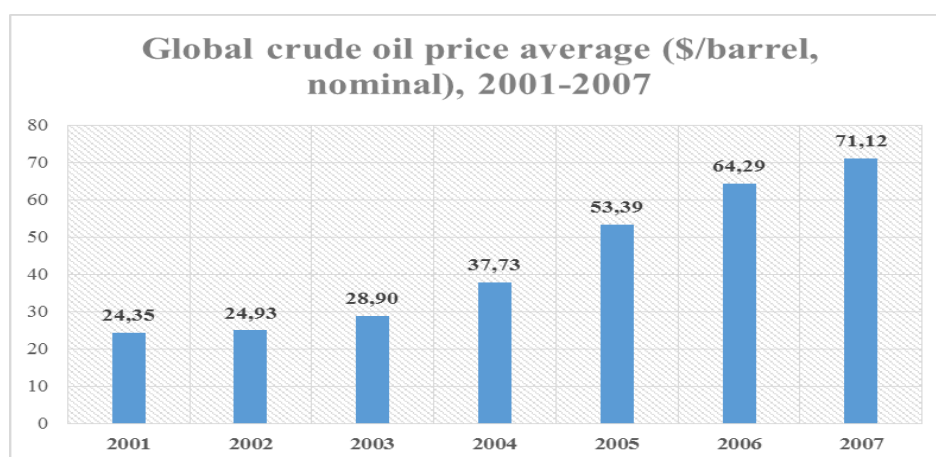


Figure 6: Global crude oil price average (\$/barrel, nominal), 2001-2007

Source: Databank.Worldbank.org (2015b)

¹⁷ *Fondo para la Estabilización Macroeconómica* that translates into Macro-Economic Stabilisation Fund.

5.2.1.1.2. *Building a social economy*

On the search for alternatives for the global neoliberal system present in the world, Chávez decided to take the route of 21st-century socialism in 2005, an idea that originates from *István Mészáros*, a Hungarian thinker and philosopher of Marxist views. Part of the ideology is to create a social economy, a system that is based on fulfilling common social interests, and “economic activity is organised on the basis of solidarity and common good, rather than on the basis of self-interest” (Wilpert, 2007, p. 77.). Many economists, mostly the neoliberal ones, reject the viability of this model, referring to the existence of *Homo Economicus*, a theory that states that all humans make decisions based on maximising their own utility and serving their own interests without taking communal well-being into account (Ubel, 2014). However, Chávez genuinely believed in the *raison d’être* of the social economy and introduced policies that were aimed at establishing this system.

For example, he established various land reform programmes and micro-credit programmes that were directed at the redistribution of wealth within the economy. Even banks were created specifically to give out micro-credits, and a 2001 banking law established the necessity for all banks to put aside 3% of their portfolio in order to finance micro-finance projects (Wilpert, 2007, p. 77.), which was designed for the poor social classes to help them create their own enterprises.

The most important idea behind creating a social economy in Venezuela, however, was the encouragement of self-organisation to create endogenous growth; the government’s main tool in the planning of this was the promotion of cooperatives (Wilpert, 2007, p. 77.).

A cooperative can be defined as a firm that is “owned, controlled, and operated by a group of users for their own benefit” (BusinessDictionary.com, 2015). During Chávez’ first 6-year presidential term, worker cooperatives were strongly encouraged by the *Ministry of the Popular Economy* that itself offered capital for cooperatives (Ellner and Tinker Salas, 2007, p. 93.) but also held links to several state banks that could give out micro-credits, a programme that was often combined with the cooperative-enhancing measures. SUNACOO¹⁸ played a very important role in the lives of cooperatives; it was responsible for the promotion, supervision and legalisation of cooperatives to ensure that all laws and regulations were complied with (Ellner, 2008, pp. 122–123.). Even a mission called *Vuelvan Caras* was dedicated to help people start cooperatives by providing job-trainings

¹⁸ National Superintendency of Cooperatives

(Ellner, 2008, p. 122.). However, according to Wilpert (2007, p. 81.), the programme did much more than that; it served more like an umbrella-mission to integrate all efforts directed at the labour market of the country. Its first and foremost goal was to help unemployed Venezuelans to organise themselves and become economically active as a member of a cooperative by providing skills training and logistical help. According to SUNACOOOP data (cited in Wilpert, 2007, p. 77.), the number of cooperatives exceeded 100 000 by 2005, up from only 762 in 1998. However, it also has to be mentioned that many cooperatives were phantom organisations created to take advantage of the benefits offered by the government, such as preferential treatment in all government purchasing (Wilpert, 2007, p. 78.). Besides these examples of corruption, many people who have founded a cooperative simply lacked the skills that were needed to run an enterprise, despite the government's efforts with *Vuelvan Caras* (Petras and Veltmeyer, 2009, p. 179).

Another policy from the government was the introduction of the idea of co-management in big factories. Worker participation was strongly encouraged, and in some cases, previously private state-owned companies (some of which went bankrupt and were revived) were co-managed by the workers and the government. Interestingly, none of these factories were completely self-managed; the government's explanation was that, if left only to workers, external costs would not be internalised, hence the common interest would not be served and therefore state-intervention is needed (Wilpert, 2007, p. 79.). Other reforms aimed at building a social economy include NUDE¹⁹ as well as EPS²⁰, both based on the idea of “solidarity, cooperation, complementarity, reciprocity, equity, and sustainability, ahead of the value of profitability” (Article 3 of Decree No. 3 895, 13th of September 2005, published in Gaceta Oficial No. 38 271, cited in Wilpert, 2007, p. 82.).

Altogether, the idea of a social economy is not to be completely disregarded. However, the viability of the system when exposed to global market forces is highly debatable (Wilpert, 2007, p. 83.).

5.2.1.1.3. Other economic policies

Despite not being strongly related to neither the oil industry nor the base of the social economy, several economic measures introduced by Chávez need to be mentioned because of their importance and influence on the economy.

¹⁹ *Nuclei for Endogenous Development*

²⁰ *Social Production Enterprises*

For instance, the Venezuelan *bolívar*'s worth was fixed against the dollar in February 2003 and has been fixed ever since as part of a foreign exchange control package (Venezuelanalysis.com, 2009), which also included regulations such as the centralisation of the purchase and sale of foreign currency in the *Venezuelan Central Bank* and were collectively called the CADIVI²¹ regime (de Gyarfas, 2013), altogether aimed at tackling the problems that arose after the 2002-2003 oil sector strikes. The reason why these measures were introduced was because the government feared capital flight that did happen to a certain that caused the entire economy to come to a halt, causing other problems such as inflation. There have been certain advantages of the currency controls, such as economic stability, reduced inflation and a more supported domestic economy, but one cannot look past the cons like the appearance of a currency black market and the issue of an overvalued currency (Venezuelanalysis.com, 31st January 2014).

Another measure that was implemented in 2003 was the introduction of price controls on basic goods such as staple food. The price caps were not only supposed to counter inflation, but were also a useful tool to boost Chávez' support among the poor (Sequera and Toothaker, 2013) and, according to the president, "to protect people from capitalism" (BBC News, 23rd of November 2011).

An urging problem that Chávez targeted in 2003 was that of the country's indebtedness as well as its budget deficit which have both been increasing ever since the 1970s due to decreasing oil prices and the state's inefficiency. The issue was handled via several programmes: an increase in government revenues both within and outside the industry by stricter tax legislation enforcement and higher oil prices; a heightened efficiency of the state by tighter controls; and, finally, the improved management of public debt. Concerning the last objective, Chávez did not only stretch out the repayment schedule that enabled better timing but also moved away from international credit markets towards the domestic one (Wilpert, 2007, pp. 84–85.). As discussed in Chapter 3.3.3, the country's indebtedness ratio relative to the GNI was significantly as a result of both the aforementioned implemented policies as well as high oil revenues that allowed the swift repayment of debt.

From most of the above mentioned policies, it is clear that Chávez' ultimate aim was to strengthen the state's influence over the economy in one way or another, especially within the oil industry. All his measures seem to have the objective to "construct an alternative to neoliberal globalization" (Lander and López Maya, 2002, p. 4., cited in Kirby,

²¹ National Center for Foreign Commerce

2003, p. 154.). Also, a radicalisation-process can be observed which affected not only Chávez' foreign politics and domestic propaganda, but also his economic policies.

5.2.1.2. *The economy, its reforms and Chávez' changes 2007-2013*

After his re-election in December 2006, Chávez promised to carry on with building the 21st-century socialism he had started establishing. His way of achieving this was partially by increasing the state's influence in the economic sector by means such as the nationalisation of key industries like telecommunication (such as the telephone company *Cantv* (Gonzalez, 2014, p. 114.)), electricity and parts of the oil industry that had remained private till then (Nelson, 2015). During these processes one can see the role politics started to play a more and more aggressive role in the economy and how it influenced decisions. For instance, a television channel called *Radio Caracas TV* was not granted a licence for broadcasting; this was viewed "as a new attack on freedom of expression" by many both within and outside the country (Gonzalez, 2014, p. 114.).

I cannot help but notice what effects Chávez' (political) radicalisation had on the economy. During his second full term as president, the policies he introduced were more politically driven than ever before instead of tackling the real issues that troubled the economy. A good example is the fact that even though there have been previous attempts to diversify the economy to overcome the Dutch Disease, reliance on the oil sector has remained high partly because it was the only way the social reforms could be financed. This helped Chávez remain in power because of his popularity among the nation's poor, who were the main target group of the social missions, which outweighed the dissatisfaction of the elite and of the middle class. In the past few years, Chávez has become "the president most loved and most despised by the Venezuelan people" (Marcano et al., 2007, p. 148.). Many, including *Luis Miquilena*, spoke about how the president has changed during his years in office (Marcano et al., 2007, p. 150.) and grew more and more power-hungry, which influenced his economic decisions in a way that exercising state control became more important than serving the economic well-being of the country.

One must note, however, that Chávez and his government was never particularly focused on reforming the economy (apart from gaining control over it and the creation of cooperatives to aid the development of a social economy), but rather on the social policies called missions (see Chapter 5.3.1) and the Latin-American integration (see Chapter 5.4.1). The reason for the prioritisation of social programmes is that, as Chávez thought, the growth of the economy does not always result in better living standards, especially for

the poor, which was his primary focus (Ellner, 2008, p. 151.). The social reforms were aimed at the poorest (and most numerous) social classes, which proved to be a key element in boosting Chávez' popularity that allowed him to govern for an extensive period. The idea of a Latin-American integration had not only ideological, but also economic backgrounds, such as the creation of *Petroamerica* consisting of *Petrosur*, *Petrocaribe* and *Petroandina* agreements, which served the purpose of creating an “energy cone” for Latin-America (Wilpert, 2007, p. 100.), therefore strengthening the political integration via economic cooperation in Venezuela's key industry.

The lack of focus on the economy also shone through his speech after he sworn in as Venezuela's president after his electoral victory in early 2007. He outlined the five “motors” of transformation for the second full presidential term, four of which do include concrete plans:

- the enabling law
- a new education programme
- the creation of a new division of municipalities
- the establishment of community councils

None of these directly relate to the economy, but rather to his own influence as a political actor and the expansion of participatory democracy. Only one “motor” had direct economic implications, namely the one about the constitutional changes that regard the private ownership of certain parts of the PDVSA; this article was eliminated and the entire company was nationalised as I have described above (Wilpert, 10th of January 2007).

An important event to note is the global economic crisis of 2008-2009; since Venezuela did not hold significant amounts of foreign investment from countries whose economies were notably affected by the recession, the only factor that had a direct impact on Venezuela's economy was the fluctuation of oil prices (Venezuelanalysis.com, 2009).

As demonstrated in *Figure 7*, there was a surge in oil prices in the wake of the meltdown in 2008. resulting in an over 140 US-dollars per barrel oil price, only to be followed by a sharp decline to less than a third of the 2008-peak in 2009. As a highly oil-dependent country, the Venezuelan economy was hit hard by these swings, but managed to recover swiftly due to the reserves it managed to build up the previous year(s) due to high oil prices (Pabian, 2009).

WTI (NYMEX) Price

End of day Commodity Futures Price Quotes for Crude Oil WTI (NYMEX)

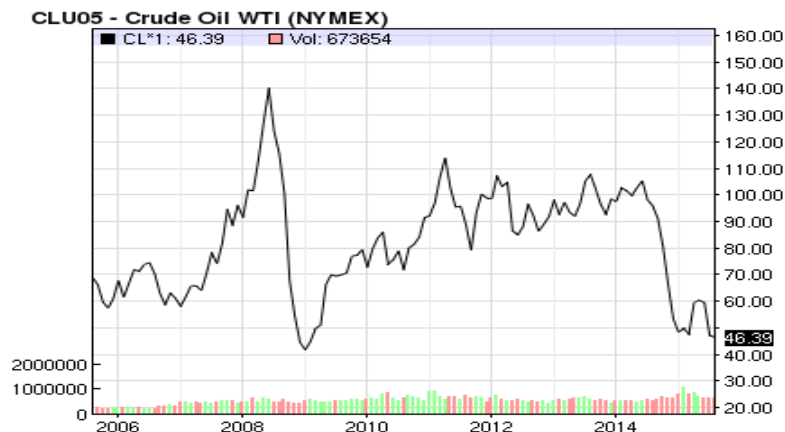


Figure 7: Changes in crude oil price (\$/barrel) 2006-2015

Source: Nasdaq.com (2015)

Price controls were also carried on during Chávez' second full term, in order to “protect people from capitalism” (BBC News, 23rd November 2011); despite all these efforts, however, inflation has soared and led to the introduction of the *Fair Prices and Costs Law*, which pronounces inflation as illegal. High inflation has reduced the supply of staple goods, and shortages have been a constant issue, which are mostly overcome by food imports – in 2008, for instance, over 5.7 billion US-dollars were spent on food imports (The Economist, 20th of August 2011).

In my opinion, alone the dependence on imports and the reliance on oil revenues, prove that the Bolivarian socialism has not operated successfully. However, before I claim the possible economic failure of the 21st-century socialism, I have to examine the effectiveness of the economic reforms Chávez introduced.

5.2.2. Outcomes of the economic reforms

Even before Chávez' death, many books and articles have been published stating the inefficiency of the government to tackle the main economic issues that have been troubling Venezuela for a long time. For instance, despite the previous efforts to reform the economy, the problem of Dutch Disease has not only persevered but grew worse; inflation has been accelerating since mid-2006; a growing gap between domestic demand and supply in terms of consumer goods (partly caused by the Dutch Disease as only the oil industry was developing well) prevailed, causing dependence on imports; the difference between the of-

ficial and the real exchange rate increased; private investment was lacking (Scaglione, 2008, pp. 85–86.). For example, non-oil income per capita has grown in the last few years of Chávez' second full term, reaching 11% by 2011; however, that still does not count as a good enough figure, especially when compared to the performance of other countries in the region (Altman, 2013).

Many economists, such as Voigt (2013) argue that Chávez' policies have made the economy “more equal, less stable”, referring to a certain success of the social reforms that will be discussed in Chapter 5.3.2, but also to the fact that all policies that were aimed at reducing economic volatility (see Chapter 5.2.1.1.1) were not effective and Chávez' governing actually deepened the existing issues. One of the biggest arguments against Chávez' success as a leader is that by redistribution, he actually “reduced the size of the pie for his fellow citizens” (Altman, 2013), meaning that during his presidency, the Venezuelan economy failed to grow that could have enabled everyone in the country to be better off. According to *William Ratliff* (cited in Voigt, 2013), the emphasis the leader placed on social reforms ended up draining the state oil company PDVSA to finance various social projects instead of reinvesting the profits in the company, which caused PDVSA to underperform (Plummer, 2013).

Other researchers have expressed their dissatisfaction over how decisions were made: instead of having an expert team working out the best reaction to certain economic troubles, Chávez often made important decisions on an ad hoc, often political basis, choosing solutions that provided a quick-fix to the economy but did not resolve the more important structural problems, such as a restricted and underperforming industry, unfeasible public spending and worsening infrastructural conditions (Plummer, 2013). Plummer also mentioned the lack of competence – the government has been missing highly qualified professionals (Wilpert, 2007, p. 129.) – as well as corruption that resulted in wasted results, claiming that with such high oil revenues, bigger achievements could have been met. He was not the only one who claimed that Chávez did not take full advantage of high global oil prices; instead of investing it wisely in the country's economy and society, a lot of it was thrown away “with a set of policies that will prove unsustainable” (Ricardo Hausmann, cited in Perez, 2013).

According to official data from *The World Bank*, consumer prices have been increasing and price controls did not stop inflation but quite the opposite, so the annual inflation rate in 2013 reached 40.6%, a shocking rise after a decreasing tendency (see Chapter 3.3.3) (Databank.worldbank.org, 2015a). Sluggish economic growth (1.8% in 2013), in-

creased public spending and massive currency-devaluations also indicate the poor performance of the economy (Plummer, 2013).

All these opinions reinforce one fact: 21st-century socialism did no good to the economy; the Chavezian era left the Venezuelan economy vulnerable, unstable, oil-dependable, centralised and unprepared to meet the possible challenges of the future. However, the social reforms that were implemented can still be proven effective and this is a crucial evaluation to make, since Chávez' entire governing was built around the social policies aimed at helping his nation, so their success (or failure) directly reflects the performance of Chávez as president.

5.3. CHÁVEZ' SOCIAL POLICIES

In order to understand the motivation and importance of the social reforms that Chávez implemented, it is necessary to first take a look at the state of society and the previous politicians' approach towards the issues that exist in Venezuela's society. Wilpert (2007, p. 84.) talks about a "gradual dismantling of Venezuela's welfare state between 1980 and 1998", leading to increases in the poverty rate, infant mortality rate and other social indicators. As mentioned in Chapter 5.1, due to the various coup attempts and political conflicts, there was no change for the government to develop a well-rounded framework that addresses the real social issues; for this, the Venezuelan people had to wait until 2001.

One of the first steps Chávez took towards reaching out to the poor of the nation was, of course, the new *Constitution* of 1999 that expanded human rights with social rights, including the right to "education, health care, housing, employment, and social security" (Wilpert, 2007, p. 105.). *Articles 75-97* (Venezuelanalysis.com, 2015) make it clear that the state is in charge of providing health and education for free, and also plays a significant role in offering access to the other factors, such as housing. It is important to note, however, that the constitution just outlined the objectives and the responsibilities of the government, but it did not include any concrete information about how the state would take up these new responsibilities. Further laws and regulations as well as programmes were required and these were introduced later on to provide a framework for the social policies that had been made obligatory by the constitution. These programmes are referred to as missions and they have had a significant impact upon millions of Venezuelans' lives; the outcomes will be discussed in Chapter 5.3.2.

5.3.1. The Chavezian missions

One of the first programmes that Chávez introduced was called *Plan Bolívar 2000* and it combined Chávez' two main objectives: helping the poor of Venezuela and strengthening military-civilian ties within the country. Quite simply, it involved the armed forces using their spare capacity to help the local communities close to their bases in various social projects, ranging from the Air Force helping locals plan their travels to the National Guard reinforcing police activity in low-presence areas (Wilpert, 2003). The programme was implemented in three stages, namely: *Pro-País* that referred to providing social services; *Pro-Pátria* that aimed at the military aiding communities to find local solutions to their issues²²; and *Pro-Nación* that was meant as a step in the direction of endogenous development and self-sufficiency in economic terms (Gott, 2005, p. 178.). Much controversy surrounded *Plan Bolívar 2000* during its three years of existence (1999-2001), much of which claimed that the policies were ad hoc, poorly managed and not transparent enough, leading to corruption cases, such as overpricing, fraudulent bills and ghost employees among others (Marcano et al., 2007, p. 138.). However, taking into consideration the lack of resources dedicated to this mission, the programme achieved success in many fields, such as building schools and hospitals, vaccinating children and so on (Wilpert, 2003). Also, it brought the military closer to civilian society and shed a more positive light on it, which contributed towards achieving Chávez' dream of restoring the image of the military.

The next great step towards implementing social reforms was the introduction of the *Social and Economic Development Plan 2001-2007*. Its three objectives were “the universalization of social rights, the reduction of the inequality of wealth, income, and quality of life, and the appropriation of the public realm as a collective good” (Wilpert, 2007, p. 105.) and they outlined a comprehensive package that concerned all aspects of Venezuelan poverty, including reforms in the fields of education, land, health care, housing, social security and food supply. Altogether, Chávez' aim was to eliminate poverty that had become more diversified and generalized under previous governments (Wilpert, 2007, p. 107.), and, therefore, was a lot more difficult to both tackle and measure. Nonetheless, Chávez saw the solutions to these problems in the missions, most of which were conveniently implemented prior to the 2004 recall referendum (Wilpert, 2007, p. 109.) to boost his politi-

²² This shows how early on Chávez expressed his belief in and encouragement of self-organisation, a concept that later gained significance.

cal support; most of the changes made prior to this were inefficient and were more focused on politics than the social welfare of the nation (Marcano et al., 2007, p. 267.).

One of the most important areas for reform was that of land, as much of rural land was still in the hands of the prosperous class as *latifundia*, leading to an unequal distribution of wealth (Wilpert, 2007, p. 109.) For this reason, *Misión Zamora* was introduced in 2001 to redistribute land, tax unusual property and provide an incentive for agricultural production that was falling behind (McKay, 2011, pp. 79–80.), thus aiding economic diversification (Wilpert, 2007, p. 110.). The aim was to eliminate idle lands and grant access and property rights to anyone who is willing to carry out work on it; first, demand was to be satisfied from state-owned land, but the breaking up of *latifundia* was more and more encouraged. This was in contrast with previous policies of past governments that only distributed public land, thus leaving the *latifundia* untouched (Ellner, 2008, p. 125.). It can be seen that land reforms were not an innovation of the Chávez-government but their success has been limited due to lack of information, transparency and many other factors; to sidestep the problem, new institutions such as the *National Land Institute*, the *National Rural Development Institute*, the *Venezuelan Agricultural Corporation* as well as the *Socialist Agrarian Fund* have been established. These institutions did not only monitor and control processes related to the redistribution of lands, but also offered assistance in micro-loans, provided education and training as well as access to subsidized food outlets (Ramachandran, 2006, cited in McKay, 2011, pp. 80–81.). The rural land reform could also be used as a means of encouraging urban-rural migration, which was part of Chávez plan to reverse the trend of urbanisation and to “populate the rural areas with the country’s own population” (Gott, 2005, p. 31.). The government carried on with the reform but modified it in June 2010, banning the contraction and rental of land cultivation to third parties as well as the eviction of farmers (McKay, 2011, p. 85.). The land reform still continued and by 2014, the government has regularised²³ nearly 6 million hectares of land (Wilpert, 2014).

However, besides rural land reforms, there was a clear need for urban land reforms. As one of the most urbanised countries in the world (the ratio of urban population is 89% in 2015 (Cia.gov, 2015)) with high levels of inequality, Venezuela struggles with lots of urban problems, such as the existence of *barrios*²⁴ where the majority of the Venezuelan urban population lives. Chávez realised the issues that arose from these unofficial hous-

²³ Regularisation in this sense refers to the “verification of existing land-ownership claims” (Wilpert, 2014).

ings that are built in dangerous and naturally unsafe areas and, in early 2002, announced that the ownership of publicly owned land can be transferred to the inhabitants of the barriers, hence legally acknowledging their existence. Land committees were established and the exact regulations were elaborated in collaboration with the representatives of the beneficiaries. The three permanent tasks beside this initial one were participation in property-title regulations, self-government and self-transformation of the *barrios*; these gave the inhabitants a sense of power in decision-making that contributed towards Chávez' popularity. The urban land reform programme was designated to be a cure for many issues at the same time: it gave the people of the *barrio* security of their own home, which they could also use as collateral for a loan and it allowed the *barrios* to think as a community that could be used in improving the infrastructure of the area too (Wilpert, 2007, pp. 116–120.). This policy was also carried on, just like the rural land reform programme, with the help of community councils who took charge as the bodies distributing the land titles (Ellis, 2010).

However, the most important areas in which missions were implemented concerned the fields of education, health and food supply, as the lack of these are some of the biggest issues for the poorest of the society. Both health care and education had been neglected by previous governments and were in a terrible state: government spending was low, the health care system was fragmented and confusing and the education system, even though it was officially free, was often unavailable for a significant percentage of the population (Wilpert, 2007, p. 120., pp. 131–132.). These issues were the ones on which Chávez decided to focus to make a difference for the Venezuelan people.

One of the most well-known missions is called *Barrio Adentro* which was a medical programme introduced in 2003 in order to provide free dental and health care (Dutka, 2014). It involved help from Cuban doctors who worked side-by-side with Venezuelan assistants in the *barrios* whose inhabitants had no direct access to medical assistance, providing health care any time of the day (Gott, 2005, pp. 257–258.). The programme was a hugely popular among the poor but there were accusations and lawsuits from the *Venezuelan Medical Federation* about Cuban doctors indoctrinating the population with various ideologies and taking local doctors' jobs (Wilpert, 2007, p. 134.). The arrival of Cuban doctors has actually been part of an agreement that enables Cuba to obtain Venezuelan oil in exchange for the services of doctors, allowing both countries to make use of their “compara-

²⁴ The word “*barrio*” refers to the concept of slums that are widespread in most Latin-American countries.

tive advantage” (Arsenault, 2012). After the initial mission, three follow-up programmes were introduced: *Barrio Adentro II* within the same year²⁵, establishing integral diagnostic, rehabilitation and high-tech medical centres; *Barrio Adentro III* in 2005 that opened 160 hospitals across the entire country; and *Barrio Adentro IV* in 2006 that opened a network of 16 new hospitals for specialist care (Telesurtv.net, 2015). Other health care missions included vaccination programmes as well as missions *Dr. José Gregorio Hernández*, *Milagro* and *Sonrisa*, all focusing on different areas of health care, granting the people of the *barrio* access to health services they could not obtain through the official channels.

The government’s top priority, however, was the reformation of education at all levels and granting access to all. Therefore, this area enjoyed not only Chávez’ ultimate attention, but the missions dedicated to improving education also witnessed the biggest “increases in state resources” (Wilpert, 2007, p. 120.). One of the programmes was *Misión Robinson* which aimed to tackle the problem of illiteracy using the Cuban method of associating letters with numbers with the aid of video cassettes and facilitators instead of teachers in order to enable mass education (Gobierno Bolivariano de Venezuela, 2015). The programme *Robinson II* was implemented the very same year and its goal was to provide people with primary school education (Ellner, 2008), which is six years in Venezuela. The course was to be completed within two years and was taught by volunteer teachers using materials provided by the government, such as TV and VC equipment (Wilpert, 2007, p. 125.). The third phase of the Robinson mission, often called *Círculos de Lectura*²⁶ was implemented three years later, in 2006 and was focused on encouraging reading and generating national interest in political, economic, social and cultural matters (Gobierno Bolivariano de Venezuela, 2015). There are three more missions in the field of education and work to mention, namely *Misión Ribas*, *Misión Sucre* and *Misión Vuelvan Caras* (often referred to as the “mission of missions” (Ellner, 2008, p. 169.)), the third of which has already been discussed in Chapter 5.2.1.1.2. The goal of *Misión Ribas*, also introduced in 2003, was to help young individuals who had dropped out of school to complete their high school education (Gott, 2005, p. 258.). *Misión Sucre*, on the other hand, focuses on those who have already obtained a high school diploma (or that of equal value from *Misión Ribas*) and wanted to carry on in tertiary education but lacked the financial resources to do so (Wilpert, 2007, p. 130.).

²⁵ In 2003

²⁶ *Reading Circles*

Apart from the missions, Chávez facilitated many other changes in the education sector, one of them being *Proyecto Simoncito* which was essentially created to be a pre-schooling programme to guarantee equality and enable both parents to work without having to pay for day care. Other reforms included changing the education policy to emphasize cooperation and community in the curriculum at all levels, making secondary education more practical and establishing the *Bolivarian University of Venezuela*. The new university was supposed to supply additional places for those willing to study, but also to provide the government with well-educated young adults with a Bolivarian mind-set, something the Chavezian government lacked greatly (Wilpert, 2007, pp. 120–129.). Most of these institutions and missions have been running since and are still in place today, sharing the new success stories and changes online.

Another area where the government heavily intervened (and still does) is that of food supply and nutrition. Along with price controls implemented (mentioned in Chapters 5.2.1.1.3 and 5.2.1.2), Chávez also launched the programme *Mercal* in 2003, developed into a mission in 2004, to target this area. *Mercal* stands for Mercado de Alimentos and the mission's aim is to provide the poor classes in Venezuela with food at significantly discounted prices facilitated via government subsidies (Wilpert, 2007, p. 142.). The majority of the food sold in *Mercal* stores (as they are an entire food chain created by the government (Ellner, 2008, p. 133.)) is imported as prices set by the government cause constant conflict with domestic producers in the private sector (Clark, 2010, p. 144.). Other programmes of nutrition include *Casas de Alimentación* providing food at a discounted price and the network of *Comedores Populares Bolivarianos* which offers not only free meals, but also basic health care, shelter and educational programmes for those in extreme poverty (Wilpert, 2007, p. 142.). Yet another important establishment took place in 2008 when PDVAL²⁷ was founded as a subsidiary of PDVSA, the state-oil company to help with food production and distribution (Banco Central de Venezuela, 2011). The missions and projects are still in place and price controls have been implemented in various new ways during Chávez' presidency, together with production quotas for basic goods such as cooking oil, pasta and flour (McDermott, 2009).

There have been many other missions dedicated to solving several of Venezuela's problems, and these include: *Misión Guaicaipuro*, a programme to deal with the situation of indigenous communities; *Misión Madres del Barrio*, a social project to make the lives

of single mothers without a full-time job easier; *Misión Identidad* which was implemented to have the whole population registered to vote; *Misión Negra Hipólita* aimed at actively seeking out people in critical poverty and helping them and *Misión Hábitat* that was put in place to provide new housing for the poor among others (Banco Central de Venezuela, 2011). There have been changes in terms of social security, too, although not covered by missions; in 2003, Chávez made the social security system state-run (as stated in the 1999 constitution), increased retirement benefits by tying it to the minimum wage and started paying back the debt the previous governments created in the social security system (Wilpert, 2007, pp. 140–141.).

It becomes obvious in this chapter that most reforms and missions were introduced within Chávez' first full presidential term and not many new programmes were created during his second term; rather, Chávez was trying to keep the existing projects running financed by the redirection of oil revenues that was made possible by the state's control over PDVSA, Venezuela's oil company (Ellner, 2008, p. 140.). One must also add that “academic research on the characteristics of the missions is scarce” (Ellner and Tinker Salas, 2007, p. 72.) which makes data collection harder. Furthermore, there is a lack of trustworthy information about the government's actions, especially from 2007 onwards when Chávez' political aims also radicalised and stricter information control took place (see the example of *Radio Caracas TV* in Chapter 5.2.1.2).

5.3.2. Evaluation of the social reforms

Chávez and his presidency are best known for the social reforms implemented in order “to achieve the greatest happiness for all the people” (Chávez Frías and Guevara March, 2005, p. 33.); unsurprisingly, these reforms are also one of the most controversial actions of the government, criticised by many. One could go into immense detail about the supposed success rate of literacy campaigns, food supply systems and educational reforms; however, the main question in terms of the missions and other changes remains whether they really contributed towards alleviating poverty and reducing inequality and if so, to what extent – and at what cost.

²⁷ *Productora y Distribuidora Venezolana de Alimentos* that translates into *Venezuelan Food Production and Distribution*

According to *Zsuzsa Dömény*²⁸, the recognition of three facts helped the Chávez-government in fighting poverty, especially in the later years. First of all, it became clear that poverty is not an absolute term and can be interpreted in many ways, especially since the composition of those in poverty had changed before Chávez came into power (see Chapter 5.3.1). Poverty cannot only be defined by financial means, but also by lack of opportunities, such as lack of education or lack of possibility for social mobility. Therefore, there had to be different programmes put in place as different types and levels of poverty were to be targeted in different ways. The second realisation (which I do not think came early enough or was disregarded in the policies) was that donations are not the way forward as they only provide temporary solutions but undermine the possibility for future structural changes. The third and final fact that had to be noted was that extreme poverty represents an entirely different category whose treatment should be distinguished from all other implemented solutions; in this case, concrete aids such as donations in any form could be justified.

As said by *Professor Rodriguez* (Foreign Policy, 2006, cited in Marcano et al., 2007, p. xviii.), “there is little or no evidence that Chávez is finally sharing Venezuela’s oil wealth with the poor. Most existing statistics do not show significant improvements in either the well-being or the share of resources directed at Venezuela’s most disadvantaged citizens”. The quote signals that inequality still persisted in 2006 and that oil revenues had not been directed towards social reforms. However, a lot of sources contradict the previous statement, stating that the Gini coefficient fell to 0.39 from 0.5, while the poverty line also dropped by 14.1% to 36.6% in the first eight years of Chávez’ presidency. However, by using the profits of the oil sector (i.e. that of PDVSA) for social reforms, no re-investments into the state-run petrol company have been made which led to a fall in efficiency and production (Voigt, 2013). This is likely to have a deep long-term negative effect on Venezuela’s economy since it still is greatly dependent on the oil industry.

As stated by *Banco Central de Venezuela*²⁹ (2011), out of the implemented 10 missions by 2011, the average number of programmes that households took advantage of was 1.6; that, put together with the fact that 27.8% of households did not benefit from any of the missions, means that Chávez did not manage to reach as many people as he had intended to.

²⁸ Personal interview on the 9th of January in 2015.

²⁹ Central Bank of Venezuela.

As *Figure 8* shows, there were essentially no people who have benefitted from 8 or more of the social programmes (*misiones*), while over half of Venezuelan households enjoyed the benefits of one project at best – this proves that even though most of the missions have been up and running for years, there were still large parts of the population who did not participate in them. The *Central Bank of Venezuela* (2011) also published that over 13.5 million people profited from the health care missions, while the number of those experiencing the positive effects of the food supply and educational reforms were significantly lower, around 6.6 million and 1.8 million respectively.

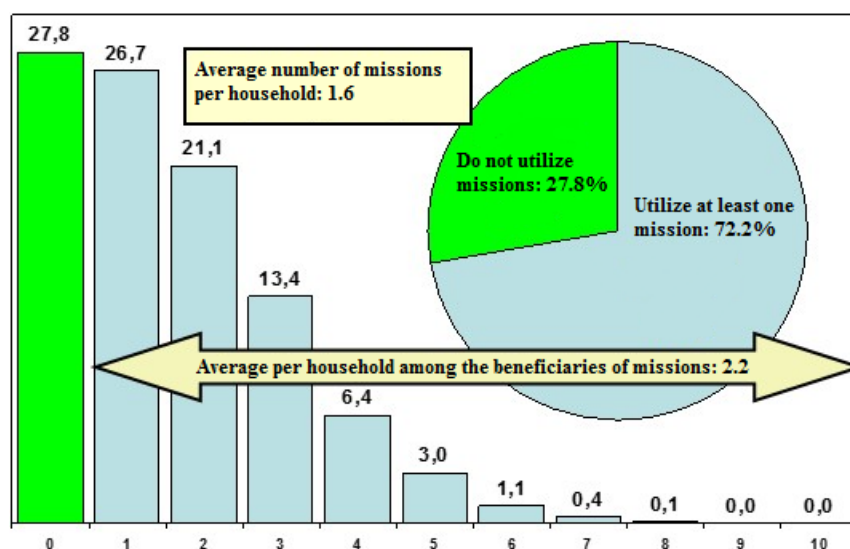


Figure 8: The number of missions currently used by Venezuelan households

Source: Banco Central de Venezuela (2011).

Nutritional statistics say a lot about a country's social situation; in many cases, poverty indicators might not be suitable for a specific country as they do not take all aspects of poverty into account or fail to recognise country-specific factors that play an important part. However, data about how well-fed a country's population is can paint a fairly accurate picture about the society's poverty rate.

As you can see in *Table 1*, independent estimates state there have been in fact no net changes in the number of people living in extreme poverty between 2000 and 2015. This, however, is a rather static indicator as the number of those living in extreme poverty is likely to have decreased and then risen again due to falling oil prices from mid-2014 onwards. However, one cannot deny the fact that all data in this figure published by independent bodies show a constant or worsening trend over the Chávez-era. It is obvious that there are major differences between the statistics provided by the Venezuelan government

and those prepared by independent organisations. While it is possible that the latter have estimated the figures wrong (it has happened in the past, such as in the case of health care expenditures which Wall Street Journal underestimated (Weisbrot, 2015)), it is more likely that the Venezuelan government has been manipulating data in order to convince the country's population (and the rest of the world) about the success of the social reforms.

Table 1: Comparison between official government data and independent estimates concerning food supply in Venezuela

| Area | Government claims | Independent estimates |
|--|---|---|
| Extreme poverty (based on the “unsatisfied basic needs” definition) | Down from 12.2% of homes in 2004 to 5.4% in 2013 | Extreme poverty in 7.3% of homes in 2014. No net fall in the number of poor since 2000. |
| Meals | 95% of Venezuela's 31m people eat at least three meals a day. | 88.7% of Venezuelans eat that often. |
| Nutrition | Malnutrition down by four-fifths since 1990; among children it halved. | Consumption of nutritional staples fell from 2011 to 2014. |
| Food subsidies | 22m use subsidised supermarkets, food chains and free food for the poorest. | Only 11.7% of the genuinely poor benefit from these subsidies. |
| Food in schools | 4m children get free meals under PAE, a government programme. | PAE is deficient in quantity and quality, and suppliers are often not paid. |

Source: The Economist (20th of June 2015).

It is important to mention that even if poverty did fall by a significant rate, as demonstrated in *Table 2* (although ECLAC-data seems to clash the data mentioned before by Voigt (2013)), the ratio of people living in poverty or extreme poverty is on the rise again since 2010. This also reinforces what *Zsuzsa Dömény* said in a personal interview on the 9th of January 2015: fighting poverty is an important goal but it is only temporary if it does not coincide with possibilities for permanent upwards social mobility.

Table 2: Percentage of population living below the extreme poverty and poverty lines in Venezuela, 1999-2013

| Years | Extreme poverty (%) | Poverty (%) |
|--------------|----------------------------|--------------------|
| 1999 | 21,7 | 49,4 |
| 2000 | 18,0 | 44,0 |
| 2001 | 17,9 | 44,4 |
| 2002 | 22,2 | 48,6 |
| 2003 | N/A | N/A |
| 2004 | 19,0 | 45,4 |
| 2005 | 15,9 | 37,1 |
| 2006 | 9,9 | 30,2 |
| 2007 | 8,5 | 28,5 |
| 2008 | 9,9 | 27,6 |
| 2009 | 9,8 | 27,1 |
| 2010 | 10,7 | 27,8 |
| 2011 | 11,7 | 29,5 |
| 2012 | 7,1 | 25,4 |
| 2013 | 9,8 | 32,1 |

Source: Interwp.cepal.org (2015)

Moreover, a lot of the social policies had some sort of drawbacks that prevented them from being successful, especially on the long run. For example, concerning the rural land reforms, the authorities failed to realise that even though banning the sales of the newly acquired land seemed like a sensible idea, it created a black market for land titles that were sold below their actual value which did not serve the benefit of the farmers but instead made them even worse off (Wilpert, 2007, p. 112.).

Most of the problems associated with the missions are structural and, therefore, much harder to tackle. One of the big mistakes the government committed was to implement the projects parallel to the existing ministries and institutions instead of integrating them into these. This also meant that the government was (and is) the only source of information about these projects, making it difficult to obtain trustworthy data about the success rate of the programmes (Marcano et al., 2007, p. 269.). Furthermore, even though ministries were side-stepped due to their inefficiency and their high levels of bureaucracy, the new institutions turned out to be just as bureaucratic which defied the point of the parallel existence.³⁰

³⁰ Based on a personal interview with Zsuzsa Dömény on the 9th of January in 2015.

In general, it can be said that many of the programmes, such as *Misión Barrio Adentro* or those aimed to tackle the issue of food supply were in fact no more than expensive, ad hoc decisions, quick-fix programmes that proved to be rather inefficient and brought about little or no change in structural matters.³¹ For instance, even though the reforms concerning health care (such as *Misión Barrio Adentro*) made medical assistance available to millions who had not had the chance to be treated before, they caused tension in the health sector and neither the owners of private clinics, nor the government invested in the improvement of the level of services (such as new hospitals or more modern equipment) (Dömény, 2011). These factors, together with price caps, foreign exchange controls and mismanagement from the government's side has left the state-run health care system with insufficient medical equipment, supply shortages and difficulties to perform any treatment unless they are emergency operations. (Heyes, 2013). The collapse was visible towards the end of Chávez' presidency already, so the heavy fall in global oil prices that caused a lack of funds available for social projects in Venezuela cannot be blamed for the problems.

One of the decisions that was also meant to fix the economic and social situation but actually deepened the structural issues was that of price controls, as already mentioned. Price caps were often set below production costs that prevented local farmers from producing at a profit and, therefore, to produce output at all, which then led to an import-dependence on food and caused severe shortages ever since the first price caps were introduced (Wilpert, 2007, p. 143.). In addition, a black market for all sorts of goods arose where products were sold at an unreasonably high price which put poorer people at an even larger disadvantage since more prosperous families could afford to shop at the black market, while those below the poverty line were unable to do so.³² Instead of price and currency controls, the government should have strived to strengthen local agriculture so that they can remain competitive and cope in a market-based system – however, as we know, Chávez was trying to build a system based on cooperation and solidarity, not on market values, so basing his policies on competitiveness did not come to question.

What is more, Chávez' social policies seem to have had a close link with politics. Many of the implemented programmes played a role in boosting his popularity (such as the implementation of the missions as part of his campaign before the 2004 recall referendum) and seem to have “a political effect that exceeds the size of the program” (Wilpert, 2007, p. 144.). Moreover, in many cases the opposition spoke of a degree of political dis-

³¹ Based on a personal interview with Zsuzsa Dömény on the 9th of January in 2015.

crimination claiming that only students who support the Bolivarian Revolution could enrol to the *Bolivarian University of Venezuela* (Wilpert, 2007, p. 129.) and that programmes such as *Madres del Barrio* were no more than a “pre-election patronage program” (Wilpert, 2007, p. 143.) that granted benefits to only those who agree with Chávez’ politics and denied access to those who did not. To mention one example, those who signed the petition that was asking for his recall referendum in 2004 were put on a list called the *Tascón List* and were discriminated against in both the government missions and in other areas of civil life such as being employed at a state-run institution like a hospital (Holland, 2008).

From this chapter it is obvious that Chávez’ efforts to fight poverty were of enormous scale and not entirely fruitless; however, an expert government with clear economic and social visions (without political agenda) creating long-term solutions could have achieved greater and more permanent improvements, especially from the high oil revenues the Chávez-government had the luck to experience.

5.4. THE VENEZUELAN FOREIGN POLICY UNDER CHÁVEZ AND RELATIONS TO OTHER COUNTRIES

Besides Chávez’ economic and social reforms, his government’s foreign policy is also worthy for a brief description not only because of its political significance, but also because it has a great importance for the country’s economic relations as well. In 2001, Chávez announced the objectives of his foreign policy which were to promote multi-polarity as well as Latin-American integration, to diversify the country’s international relations, to strengthen its position in the global economy and to promote a new system of hemispheric security (Wilpert, 2007, p. 152.). Even though all of these interlinking objectives played a significant role in shaping Chávez’ foreign policy, I think that priority should be given to three topics concerning Venezuelan external relations: the efforts for achieving a multi-polar world including a Latin-American union, the country’s relation to the USA and last, but not least, the special bond between Venezuela and Cuba.

³² Based on a personal interview with Zsuzsa Dömény on the 9th of January in 2015.

5.4.1. Promoting a multi-polar world

The idea behind promoting a multi-polar world as opposed to a unipolar or single-polar world (a phrase that can also be interpreted as a euphemism for the hegemony of the USA (Ellner, 2008, p. 202.)) which essentially implies that there should be more than one centre of power. This can be linked to the idea that Chávez wanted to overcome the phenomenon that has been so common in Latin-America, namely the unequal international division of labour that some compared to the “distribution of function between a horseman and a horse” (Galeano et al., 1997, p. 29.) that often results from a difference in economic and political influence. Therefore Chávez was a strong supporter of various supra-national bodies and multilateral initiatives such as the UN (Wilpert, 2007, p. 153.) and also actively sought to develop relations to countries like China (Ratliff, 2009, p. 10.) and India via bilateral economic alliances to create a competitive and politically powerful Third World (Wilpert, 2007, p. 180.). Chávez’ intention to strengthen OPEC is another great example of supporting supra-national organisations to establish more powerful players in the global field of politics and economics (Ellner, 2008, p. 206.).

A significant part of creating a multi-polar world, of course, was the efforts to build a united and integrated Latin-America in which he imagined Venezuela to take a leading role. There are countless examples of Venezuela being a member or Chávez having a significant impact on the creation and enhancement of the organisations (see Chapter 3.3.2.2), the more important ones being MERCOSUR, UNASUR, Petroamerica and ALBA. The most unique of these is ALBA which can be viewed not only as an economic but also as an ideological union that was established in 2004 between Cuba and Venezuela which were later joined by Bolivia, then Nicaragua, Dominica, Antigua & Barbuda, Ecuador and St. Vincent & the Grenadines (Hirst, 2010). The organisation is said to be modelled after the *European Union* because of the *Compensation Fund for Structural Convergence* that aims to redistribute wealth among members as well as its efforts to protect regional agriculture (Wilpert, 2007, p. 155.), but I personally see little similarity apart from these factors. The main idea behind ALBA was to create 21st-century socialism in order to establish a new world order that breaks away from the neoliberal traditions (Hirst, 2010), often meaning favourable terms for oil purchases for other member countries – a way for Chávez to use oil to expand his influence in the region, often labelled as petro-diplomacy (Marcano et al., 2007, p. 223.). Also, it is supposed to be an alternative to FTAA³³ that, in

³³ *Free Trade Area of the Americas*

Chávez' opinion, does not entirely serve the interest of people as it was not based on solidarity and common interest (Wilpert, 2007, p. 156.). While the idea of creating a strong Latin-American union is noble, the scheme was not entirely successful, mainly because Chávez disregarded the fact that Venezuela is extremely dependent on revenue from a single commodity and lacks real comparative advantages that could have facilitated the kind of Latin-American integration he had in mind (Ellner, 2008, p. 205.). In the end, Venezuela spent huge amounts of money on supporting (often politically motivated) projects with no visible results that left the country drained of funds to be used for more important, long-term causes such as improving the national infrastructure, only to keep other leftist governments as political allies.³⁴

5.4.2. A relationship on the rocks: Venezuela and the USA

As we can see from the previous chapter, Chávez' interpretation of the unipolar world was that of the hegemony of the USA which he strongly opposed and he was famous for his anti-USA propaganda. Chávez wanted to break the tradition of USA-dependence in economic terms and looked for ways to diversify the country's trade connections (Ellner, 2008, p. 202.); however, he was aware that the USA would still remain an important trade partner as one of the largest oil consumers in the world.

During Clinton's presidency both countries strived for a cordial relationship despite Chávez' criticism on US imperialism, as he worded it. The relationship was far from perfect and there were a few incidents that put Chávez and his government into a rather negative light (such as refusing the help the USA offered after the 1999 mudslide) (Wilpert, 2007, p. 168.). However, USA-Venezuela relationships took a turn for the worse during Bush' presidency due to many factors. For instance, Chávez denounced the attacks on Afghanistan in 2001 and stated that "Terror cannot be fought with more terror" (Wilpert, 2007, p. 169.) – a clash with the USA's stand of "with us or against us" approach (Ellner, 2008, p. 198.). Chávez was also verbally abusive towards the USA and even against Bush personally, calling him a *pendejo*³⁵ and accusing the USA of financially supporting the 2002 coup against him – an accusation that was never cleared (Marcano et al., 2007, pp. 208–209.). After these and similar events when Chávez expressed his hostility towards the USA, relations grew icy and never fully recovered, leading to serious political and, at

³⁴ Based on a personal interview with Zsuzsa Dömény on the 9th of January in 2015.

³⁵ Powerful Spanish swearword.

times, economic tensions between the two countries. The origin of these tensions, however, lies simply in “the clash of national interests” and “different long-term goals and interests” (Ellner, 2008, p. 201.), which caused the escalation of tension.

Even though most issues remained political without spreading to other areas of international relations, economic ties were affected to some extent. However, as *Ali Moshiri*, president of the company Chevron for Latin-America, put it: “Politics is separate from business, and until now we have never had any hiccups in our projects” (El Universal, 9th of May 2004, cited in Marcano et al., 2007, p. 212.). This was also demonstrated by the fact the Venezuela kept its oil supplies flowing to the USA despite all the conflicts (Cooper and Heine, 2009, p. 15.). However, this does not mean that the political disruptions had no effect on the economic ties of the two countries later on; for example, in 2011 the USA introduced sanctions against the PDVSA for carrying out business with Iran which included banning the state-oil company from obtaining financings from *the Export-Import Bank* of the United States, from being able to compete for USA government procurement contracts and from acquiring US export licences (Mahjar-Barducci, 2011).

It is clear that the USA had no interest in supporting a leftist, nearly socialist government in his backyard but it was prepared to leave Chávez alone, especially during the preparation for the Iraq-war when the USA had no interest in creating any more uncertainty in the world, specifically in a country where instability could affect global oil prices that were already too high (Wilpert, 2007, p. 175.). However, I personally think that Chávez’ outspoken hospitality and criticism against the USA as well as members of the government were no more than fanning the flame and definitely exacerbated the international tensions.

5.4.3. A beautiful friendship: Venezuela and Cuba

One of the factors that contributed to the USA’s disliking of Venezuela were its close links to socialist Cuba and the personal relationship between *Hugo Chávez* and *Fidel Castro*. The two leaders established their special bond as early as 1994 (Gott, 2005, p. 277.) and that only grew stronger and more complex during Chávez’ presidency. Even though soft-liners within the government denied it, ideological affinity (Ellner, 2008, p. 150.) and hostility towards the USA (Wilpert, 2007, p. 162.) were common factors that reinforced the friendship of the two countries. Chávez even looked at Fidel as a brother or a father-

figure who could give him advice in difficult situations (Chávez Frías and Guevara March, 2005, p. 88.).

There are numerous examples how the friendship materialised in forms of concrete economic and social projects, one of the most important being *Misión Barrio Adentro*, a healthcare policy that involved Cuban doctors working as volunteers in Venezuela (Ellner, 2008, p. 122.) and later expanded to cover various other aspects of Venezuelan health care (see Chapter 5.3.1). This health care reform was (and still is) part of a barter that allowed Cuba to acquire thousands of barrels of petroleum in turn for supplying Venezuela with doctors and medical equipment (Wilpert, 2007, p. 163.). Currently, the two countries exchange 90 000 barrels of oil per day for 30 000 doctors' services – a transfer thought to be destructive of the Venezuelan health care system on the long run by some, but one that has proven to be helpful in treating the people of the *barrio* (Arsenault, 2012). This, along with a deal to grant Cuba access to petrol “under extremely preferential conditions” in exchange for medications and medical equipment (Marcano et al., 2007, p. 215.) led to mutual economic reliance of Cuba and Venezuela. In fact, in 2008, the worth of the projects between the two countries including the above mentioned “*Oil for Doctors*” programme reached 1 355 million US-dollars (Riggirozzi and Tussie, 2012, p. 27.).

Moreover, several treaties and organisations reinforce the cooperation among Latin-American leftist governments with special attention to Cuba. For instance, the *Caracas Agreement* allows several countries in the region to purchase oil from Venezuela at heavily discounted prices under very generous terms, and debt can also be paid in kind, with goods and services (Chávez Frías and Guevara March, 2005, p. 60.). Even as many as 370 joint investment projects were established between 2000 and 2011, including building petroleum refineries in Cienfuegos as well as the creation of CUPET³⁶ (Piccone and Trinkunas, 2014, p. 5.).

It becomes clear that Chávez' policies both in the fields of economics, politics, social reforms as well as foreign relations generated a great deal of discussion and those opposing Chávez' views often voiced their doubts about their viability and the long-term consequences. Whether their fears were justifiable is the topic of the next chapter.

³⁶ Cuba Petróleo, the Cuban national oil and gas company.

6. THE BOLIVARIAN REPUBLIC AFTER CHÁVEZ

6.1. WHAT HAPPENED AFTER CHÁVEZ' DEATH?

After the death of the ex-colonel on the 5th of March 2013, his foreign minister Nicolás Maduro (The Economist, 5th of March 2013) was elected to become Venezuela's next president in April 2013, only defeating the opposition leader *Henrique Capriles* by a margin of 235 000 votes. Maduro promised to continue down the path Chávez had laid out despite the fact that the Venezuelan economy already seemed to be revealing cracks in the system due to the “petro-dollar socialism” (Telegraph.co.uk, 2013) that, as mentioned in previous chapters, offered quick-fix solutions such as donations over long-term structural reforms, leaving the country in an extremely vulnerable and unstable state. In my opinion, these flaws were already visible during the last years of Chávez' presidency but his personal charisma that blossomed into a full-blown personal cult, strong anti-US propaganda (which created the image of an external common enemy – widely-used political tool to draw attention away from internal problems) and excellent rhetorical skills helped to keep the system running. Maduro, even though he enjoyed Chávez' support as president-elect during his final months (The Economist, 5th of March 2013), lacks the charisma and support of the people *El Comandante* bore, and this only added to the difficulty of leading the country that was already strained.

The cracks started showing early into Maduro's governing: not a year went by when anti-government protests emerged. Originally, they started because of the allegations of attempted rape of a female student in the western states of Venezuela (BBC News, 27th of March 2014), which is just another example of extremely high crime rates – Venezuela ranks third among the countries with the highest homicide rates among children and teenagers (Berwick, 2014b) and has the fifth highest murder rate overall (BBC News, 27th of March 2014). However, the student protests expanded, also raising concerns about high inflation (56.2% by the end of 2013) (BBC News, 27th of March 2014) as well as food and basic item shortages. The uprising turned violent; the police and the military repressed any demonstrations and there were clashes between protesters and pro-government criminal gangs and the opposition leader *Leopoldo Lopez* was arrested. Since then, there have been many similar protests in the bigger cities of Venezuela which even contribute to the high crime rates that was the initial subject of the demonstration, and complaints about inflation rates, scarcity of goods as well as lack of foreign currency arose (Trinkunas, 2014).

The next test for Maduro's government was the sudden drop in global oil prices in the second half of 2014, hitting a low of 40.45 US-dollars per barrel in August 2015 (NASDAQ.com, 2015). For a country as dependent on this single commodity as Venezuela, such a sharp decline could well mean a default and bankruptcy – something that was predicted by Harvard economists *Kenneth Rogoff* and *Carmen Reinhart* in October 2014 with a nearly “100 percent probability” (Berwick, 2014a) and given an 82% chance by Bank UBS by the end of 2015 (HVG.hu, 2015a). That has not happened so far and Maduro took some steps to ease the strains on the country caused by the fall in oil revenues, such as asking OPEC to artificially raise oil prices and ordering the state-owned oil company PDVSA to begin to cut the quantity of oil exported under favourable terms to partner countries such as Cuba; however, that has not proven effective so far (Berwick, 2014a). The fall in state revenue, together with the price controls, the artificial devaluation of the *bolívar* and other restrictions on hard currency, resulted in hyperinflation, extreme shortages (since Venezuela heavily relies on imports of food and basic goods) (The Economist, 5th of March 2013), higher levels of indebtedness, lack of capital to be invested in domestic projects, soaring crime rates and a general dissatisfaction of Venezuelans.

Another serious issue is that of the exchange rate between the dollar and the *bolívar*, shown in *Figure 9* that illustrates the contrast between official and black-market exchange rates – the official rate is 6.3 *bolívars* to a dollar, but the black market price of the currency reached 630 to 1 in July 2015. Due to this and other policies concerning hard currency, foreign-currency reserves have also declined dramatically within the past six months (The Economist, 25th of July 2015).



Figure 9: Official and actual exchange rates in Venezuela, 2014-2015

Source: The Economist, 25th of July 2015

For the majority of these troubles, many people blame Maduro personally: “At least under Chávez I could get things. It’s a mess with Maduro and there’s no end in sight. Things are getting worse every day”; many promise that they will not vote for Maduro again (Gupta, 2015), which could very well mean the end of 21st-century socialism.

As if these economic troubles were not enough, the president has to face the fact that a lot of his political and ideological allies are either unwilling or unable to help as they are experiencing troublesome times themselves, or are reconciling connections to the greatest enemy of Venezuela: the USA. For example, Cuba, the most prominent in voicing anti-USA opinions during Fidel’s governing, has taken a softer approach with *Raúl Casto*’s leadership and is trying to normalise both diplomatic, political and economic relationships with the USA. Embassies are being reopened (Navarez, 2015b), travel restrictions are lifted (Martinez, 2015) and there are talks about lifting the embargo that was established in 1961 to sanction the US-dependent Cuba and overthrow the leftist government that way (LeoGrande, 2015). This process of reconciliation means that those who were loud supporters of Venezuela’s anti-US campaign prefer to take a softer (and possibly more sensible) approach and if Venezuela wants to avoid alienating its previous allies, it should consider doing the same. Despite all this, Venezuelan government members including the president himself express their hostility towards the USA by blaming “fugitive bankers” from the States who *Elías Jaua*, the brain behind Maduro’s economic policies, claims to be behind the problems associated with the *bolívar*-dollar exchange rates (including Miami-based websites where Venezuelans can check the true value of their currency) (The Economist, 25th of July 2015). Carrying on similar propaganda sure will not help Venezuela improve its international relations that could actually help the country overcome the crisis, or at least smooth out some of the bumps along the way.

Altogether, Maduro has not performed well during his first two and a half years of presidency; however, it is not all his fault as Chávez’ legacy is everything but an easy heritage. How the current president treats the situation with which he is presented, however, is an entirely different issue and one can only hope that things will change for the better.

6.2. WHAT DOES THE FUTURE LOOK LIKE?

6.2.1. The dependence on oil

What the future holds for Venezuela depends on several factors, both external and internal. Due to the country’s high reliance on oil revenues, global petroleum prices will have a significant impact on the economy. According to *The World Bank*’s 10-year forecast, oil

prices will gradually increase within the next ten years, reaching 88.3 US-dollars in nominal terms by 2025, which is still significantly below the 104.1 US-dollar high in 2013 (Knoema, 2015). This predicted steady increase would definitely help to stabilise the Venezuelan economy and would allow Maduro's government to plan ahead with a bigger budget in mind.

However, even if oil prices rise gradually, two factors have to be kept in mind. First of all, the USA, one of Venezuela's biggest trade partner, is producing more petroleum than ever itself, reaching 9.2 million barrels per day at the beginning of 2015 due to a "drilling and fracking boom" (Snyder, 2015) – therefore, the country's reliance on imported oil is decreasing which is bad news for Venezuela, even if Asian countries such as India, China and Taiwan are just as important (and growing) oil purchasers (see *Figure 2* in Chapter 3.3.1). The other threat to Venezuela's petro-kingdom is the spreading of investments in renewable energy globally including Latin-America. Globally, between 2004 and 2014, the installed capacity of renewable energy sources more than doubled, growing from 814 gigawatts to 1 783 gigawatts and this trend looks set to continue in the future. Currently, Venezuela does not play a role in this development as opposed to other countries such as Bolivia, Peru, many states in the Caribbean and Chile which has experienced the most development and investment in renewable energy in South-America (Candiales, 2015). Unless the Bolivarian Republic starts investing and developing in this field, it is set to fall behind in the energy sector in the long run. And, more importantly, Venezuela must diversify its economic activities and overcome the Dutch Disease to revive the domestic economy.

6.2.2. International relations

Another challenge Venezuela's government will face is that of economic and political relations to other countries. As it can be seen from the previous chapter, Cuba and the USA are trying to re-establish their diplomatic relationships. Even though the embargo will probably not be lifted in the near future, diplomatic relationships look to be restarted and the USA already counts as one of Cuba's largest trade partners since 2007 (Renwick and Lee, 2015). The trend looks to continue in the future, especially if Cuba undertakes the economic reforms that could lead to political changes as well. This could well mean the loss of the closest ideological ally for Venezuela which would leave the country relatively alone with its hostile anti-USA propaganda.

At the same time, Venezuela's relations with the USA have been worsening, reaching a new low in March 2015 when Obama declared the country as a national security threat and ordered sanctions against several Venezuelan officials (Mason and Rampton, 2015). However, both countries recently realised the advantages of normalised relationships and started having talks about "focusing on areas of mutual interest" and sending ambassadors to the other country for the first time since 2010. Despite all this, Maduro shows no sign in changing his attitude towards the USA so relations are likely to remain icy for a while, making Venezuela's life more difficult (Welsh, 2015).

Moreover, Venezuela is trying to break away from economic dependence on the USA, shifting its focus towards countries such as China. Not only is the Asian country becoming one of Venezuela's most significant trade partners, it also provides generous loans – a total of 48 billion US-dollars since 2007. China also seems to be interested in contributing to Latin-American integration and promoting a multi-polar world (Jiang, 2015) which was one of Chávez' main aims during his presidency (see Chapter 5.4.1). Also, China lent a generous hand to the struggling economy by investing a whopping 20 billion US-dollars to help overcome the difficulties caused by plummeting oil prices (Kaiman, 2015). It looks like the ties that Chávez established with China are becoming stronger and more focused on the economy to turn away from the USA – the question only is if reducing the reliance on one giant economy by increasing dependence on another one really solves the issue, especially considering events such as the recent freefall of the Chinese stock market (HVG.hu, 2015b). In my opinion, all the obtained loans and investments should be strictly controlled and spent on infrastructure and the development of domestic, non-oil related industries to boost Venezuela's productivity and enable long-term economic growth, instead of spending it on generous social projects with no feedback and still hoping for high oil prices to finance the government's programmes.

Another question is that of Latin-American integration. Several papers (Basnet and Sharma, 2013, pp. 575–576., Bonilla Bolaño, 2014, pp. 27–28.) argue that there is enormous potential in creating a Latin-American economic union and strengthening ties within the region. However, both papers point out that political aspects have not been taken into account, only economic factors such as reaction to external shocks. One must note that Latin-America is highly divided politically and it holds a solid leftist block that has its own agendas and policies. The differences between the two trading blocs MERCOSUR and the *Pacific Alliance* consisting of Chile, Mexico, Peru and Colombia are increasingly notable and MERCOSUR's relevance is decreasing. Once again, it has to be stated that

economically, a Latin-American economic union is a feasible idea, but political willingness to actively participate is needed (Berwick, 2014c).

6.2.3. What will the elections bring?

In December 2015, Venezuela will hold elections to vote for a new *National Assembly* and, according to many polls, the opposition to the current government seems to be in a leading position. However, instead of feeling confident, the opposition is experiencing anxiety due to several factors such as the internal instability of the opposition as well as fear from the judicial system held by the current government. Also, even though the people of Venezuela is dissatisfied with Maduro's leadership (68% of the nation wants to see him gone by 2016), they are not happy with that of the opposition either. Moreover, the opposition seems to fail to address the issues Venezuelans want to see solved (Nagel, 2015).

This election could be the first time since Chávez came to power that the opposition could actually gain majority in the *National Assembly*. If the opposition could acquire two-thirds of the votes, they could reverse many of the Chavezian policies and introduce changes in the justice system; they could even invoke a recall referendum to end Maduro's mandate before 2018 when it is supposed to end (Castillejo, 2015). Apart from changes in the political scene, economic reforms such as lifting currency controls and removing price caps are much needed; however, the real question is whether the opposition is willing to implement these changes, knowing their political cost and influence on the public opinion (Stratfor, 2015).

The economic measures will have to be taken and there is no quick solution for Venezuela's problems. Whichever party wins – as Maduro still has 3 months to turn around his decreasing popularity by negotiating with the USA for example –, the road to stability will be a long and difficult one (Stratfor, 2015).

7. FINAL THOUGHTS

In this work I have provided a broad analysis of the economic and social characteristics of Venezuela and a historical overview of the country's life with special attention to the Chavezian era containing a detailed description of the government's economic, social and foreign policy. I also drew consequences in regard to the current turmoil in Venezuela and will formulate some suggestions for countries that may consider going down a similar path (Chapter 7.1).

By no means is this work complete; many more sources could have been used, existing viewpoints could have been further developed (such as the role of oil in the economy) and further aspects like the implications of the Colombian-Venezuelan relations could have been taken into account. However, my main goal was to focus on a few issues and restrict the research to the information that is most vital for this paper.

7.1. QUO VADIS VENEZUELA?

For quite a few researchers, after the collapse of the Eastern bloc, the question whether socialism is a viable system if there were more capital within the economy remained. However, Venezuela's case proved that even despite high oil revenues resulting in the possibility of generous governmental spending, any form of socialism is doomed to fail³⁷ – or, as *Ayn Rand* said: “Collectivism cannot win. It can only destroy” – due to the several factors. For example, the nationalisation of companies and increasing state control – a frequent occurrence in a socialist state – often results in so-called X-inefficiency which is essentially a managerial inefficiency due to the lack of competition which urges companies to produce in the most efficient way possible (Economicsonline.co.uk, 2015). It is a well-accepted definition, even if *Harvey Leibenstein* from whom the theory originates did not state this correlation between competitive pressure and X-efficiency that clearly (Leibenstein, 1973, p. 766.). The theory can be interpreted to show that governmental ownership often prevents competition to take place and leads to inefficiency as well as corruption in a lot of cases. Other governments should keep this in mind and implement strict control systems if they wish to run state-owned enterprises.

Some of the mistakes Chávez made were certainly not unique to his presidency; these range from building a personal cult to generating a common external enemy. For ex-

³⁷ Based on a personal interview with Zsuzsa Dömény on the 9th of January in 2015.

ample, the establishment of a personal cult has occurred plenty of times, one of the most cases being that of Stalin in the USSR³⁸. This did not only enable “accumulation of immense and limitless power in the hands of one person” (Khrushchev, 1956, cited in The Guardian, 2007) but also undermined the idea of building a society based on solidarity and sharing – the same values that were the initial drivers behind Chávez’ reforms. Even if the country does not follow these socialist values but instead lies on more capitalist bases, the power of personal cult could be misused as it has often happened in the past, therefore allowing such an autocratic governance to rise is to be avoided. The creation of a common external enemy is a technique often used by not only countries but by any type of communal groups and even companies (Sullivan, 2004, p. 260.) to achieve integration and higher levels of cooperation and cohesion within the group, as a common external enemy is likely to increase solidarity levels within the group in question (Abu-Nimer, 2001, p. 56.). The USSR or Cuba are good examples for that with their anti-US rhetoric. In addition, creating a common external enemy is often a tool of diversionary foreign policy, which is often created to draw attention away from domestic issues and shift focus to another conflict (that might even be made up). The tactic is often used when a government fears that they might be removed from power and want to distract voters (Smith, 1994). However, one should be careful when using diversionary techniques for many reasons: one might create an even bigger (external) problem that could cause serious difficulties (which is what the USA expected to happen by introducing the embargo when Cuba voiced anti-US opinions (LeoGrande, 2015)); it is possible that relations with allies of the newly named common enemy turn icy, leaving the country in question in deep trouble.

Another point worth making is that many used to say that such a rise of the left and a rejection of the widely used neoliberal policies is unlikely in the developed world; however, *Alexis Tsipras* and his party *Syriza* proved them wrong. Usually, radical leaders and movements arise after great general dissatisfaction, and that is exactly what happened in both Venezuela and Greece in recent history. While whether such a revolutionary break with previous political traditions of the Eurozone is justifiable is an entirely different issue, one can be sure that such a bold move can alienate previous relations (USA in the case of Venezuela and Germany in the case of Greece). Therefore the country whose leaders decide to take an unusual path should be prepared for temporary setbacks as a sacrifice for benefits in the long run, even if the change and the newly established regime is man-

³⁸ Union of Soviet Socialist Republics

aged well – this, unfortunately, was not the case in Venezuela but might still hold true for Greece.

The last lesson to take away holds relevance for every country in the globe. *Acemoglu* and *Robinson* (2013) dedicate two entire chapters to *The Virtuous Circle* and *The Vicious Circle* which discuss how both positive and negative feedback loops can doom a country and prevent a U-turn into the other direction in a country's life (such as breaking the negative trend of impoverishment or corruption to change for the better). However, it is noted that these rules are like natural laws such as gravity and they do not mark a compulsory path that's impossible to divert (Acemoglu and Robinson, 2013, p. 350.) – making a change is always possible.

7.2. CONCLUSION

The most important fact to mention in regards to the Chávez-presidency is that the social policies that were of the ex-colonel's main focus did not bring the expected (and later falsely stated) results; in some ways (considering the food shortages for instance), the current situation is worse than it was before, even if it did have some positive impact on the Venezuelan society. However, poverty still persists and is far from being eliminated in the country.

I share the view of many researchers, including Voigt (2013) who say that the Chavezian policies destroyed the country and set the stage for economic catastrophe that later became inevitable due to plummeting global oil prices, which implies that dependence on oil was not reduced (despite being one of Chávez' main economic objectives). The economy that the ex-colonel tried to build based on solidarity and cooperation (the cooperatives being a thriving example) is unlikely to survive in a (global) competitive world and strict government restrictions in terms of price caps and fixed exchange rates only exacerbate the already worsening situation. A lot of Chávez' decisions were ad hoc and offered quick solutions for problems that were rooted in structural difficulties instead of solving the underlying real issue. In addition, a lot of policies were politically inspired instead of creating an expert team and making economically sound decisions. I draw the conclusion that a government shall not let its political aspirations overshadow the objective of serving its own nation by introducing economically and socially justifiable policies.

One also realises that Maduro's predecessor planned to stay in power until 2021 (which he later extended to 2030 (Carroll, 2012)) which means that he assumed he would

govern for long enough to implement all the changes he wanted to. However, his earlier-than-expected death makes his half-finished work into a legacy difficult to manage. This also implies that even though Maduro has not been handling the arising issues (such as the protests of 2014 or sharply decreasing oil prices) well, current issues cannot solely be attributed to him.

Moreover, Chávez' legacy as well as the current difficulties enabled researchers to draw consequences that could be useful for other countries – I decided to point out and briefly explain some characteristics and mistakes of the previous and the current government which could be avoided by other governments. These include the concept of socialism in general, the creation of a personal cult and diversionary foreign policy, none of which seem to have been for the better in Venezuela's case.

At this point, it is difficult to say what the future holds for Venezuela – a lot depends on the outcome of the elections for the *National Assembly* that will be held in December 2015. The economy is in desperate need of the removal of at least some restrictions and the introduction of a more liberal economic policy with some structural changes – however, that would most likely come with cuts in social spending that would immediately decrease the popularity of the newly elected government, which is not a tempting option. For now, it seems sure that the path on which Chávez walked for seventeen years is not the right way, but it is difficult to determine where Venezuela will be headed next. However, as *Alan Kay* once said: “The best way to predict the future is to invent it”.

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